PX-2176.1

APL-APPSTORE_09086182
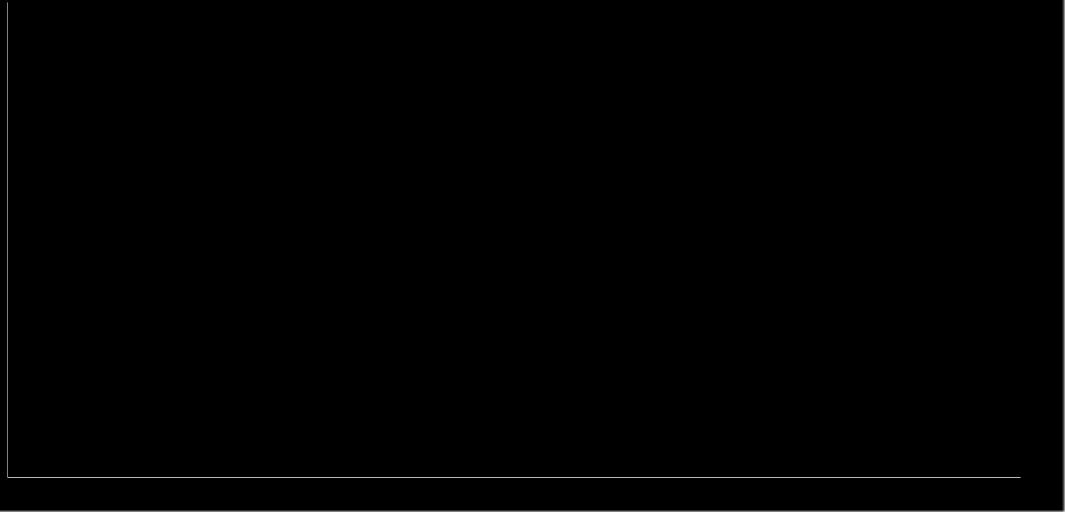
Business Overview

Downloads

Transacting Accounts

Paying Accounts

*Q1 '17 YoY growth normalized for extra week

PX-2176.5

Paying Accounts By Region FYQ3 '17

New to Paying Accounts

Paying Accounts

PX-2176.8

Paying Accounts By Region FYQ3 '17
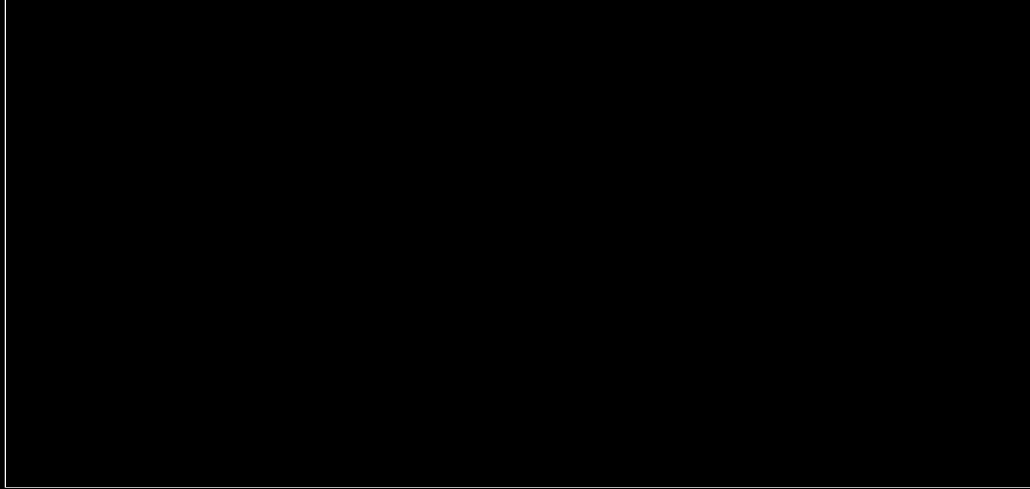
Billings

Billings By Region FYQ3 '17

PX-2176.11

Billings Fast Movers FYQ3 '17
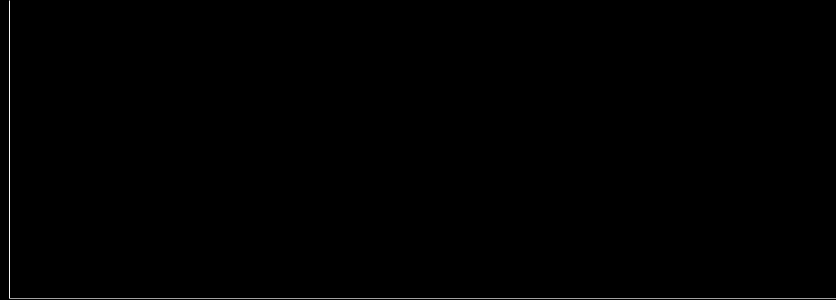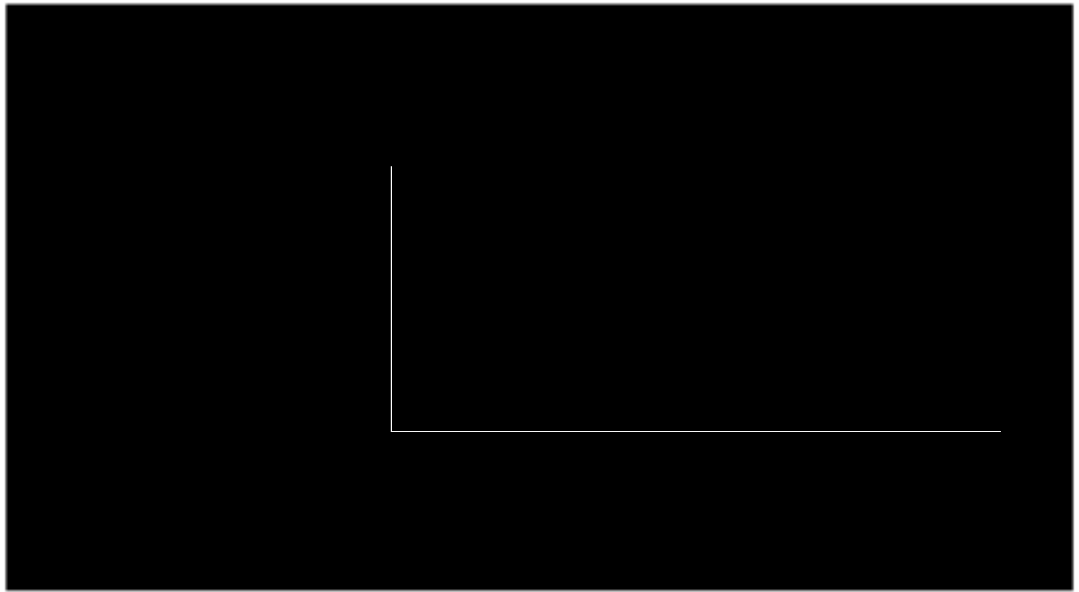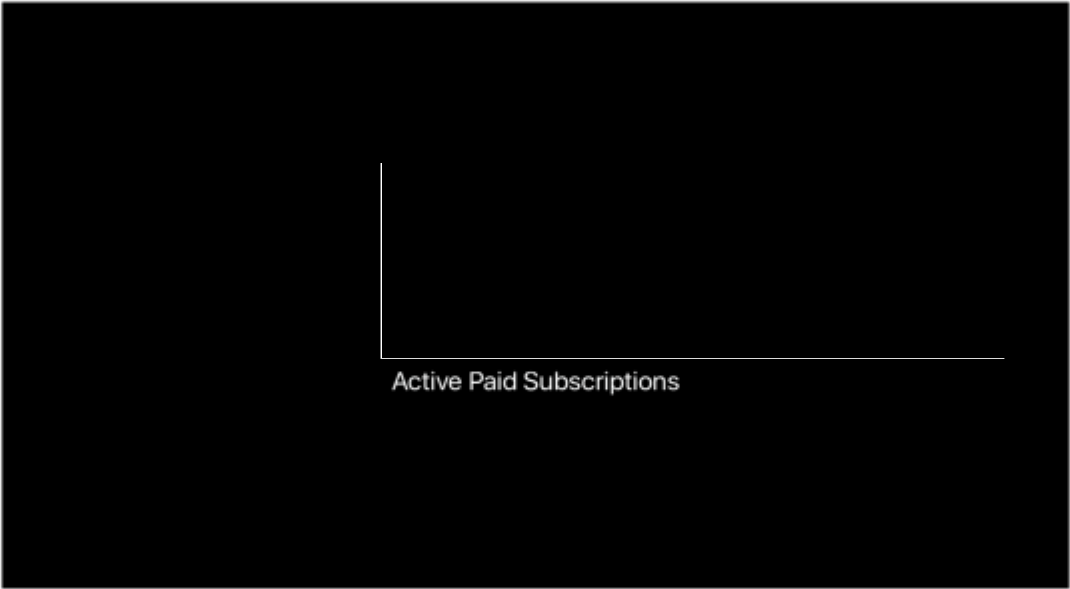
PX-2176.12

Subscriptions Billings

Active Paid Subscriptions

PX-2176.15
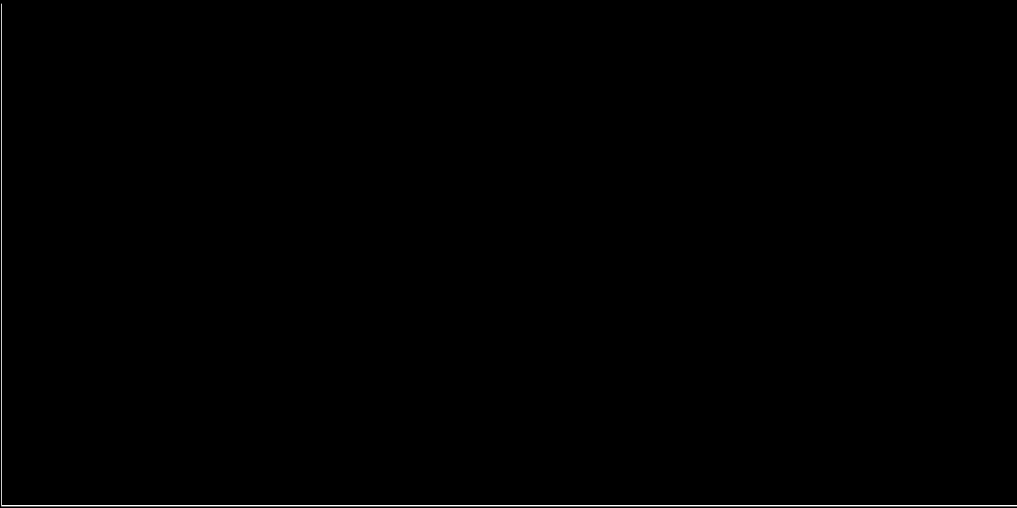
China Subscriptions Trend

China Subscriptions Trend

Subscription ASP Trend

- Data updated to 10 July

PX-2176.18

APL-APPSTORE_09086199

Top Grossing Apps Past 4 Quarters

Monster Strike | King of Glory | Pokémon GO | Onmyoji | Fantasy Westward

Clash Royale | Puzzle & Dragons | Fate/Grand Order | Game of War | Candy Crush

TODO: which direction are these apps heading in.

PX-2176.19

Top Downloaded Apps Past 4 Quarters

Pokémon GO · YouTube · Messenger · Instagram · Facebook

Bitmoji · Super Mario Run · WhatsApp · Google Maps · Snapchat

PX-2176.20

FY'18 Focus Areas

Discovery

Growth

Developers

PX-2176.21

FY'18 Focus Areas

Discovery

Growth

Developers

[MATT F.]
–First major focus next year is discovery
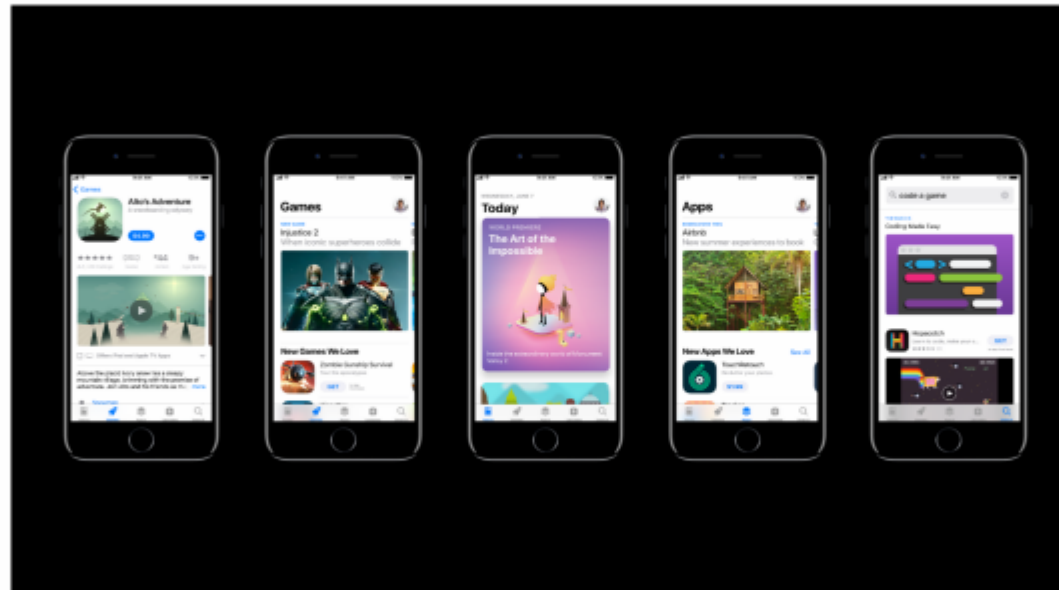
<CLICK>

PX-2176.22

Discovery

All-New App Store

Personalization

Editorial Content in More Places

App Nutrition Labeling

PX-2176.23

Top priority for the rest of the year is the All-New App Store...
-Aggressively hiring against recently approved headcount
-Great momentum towards launch, feedback has been terrific
-Will closely monitoring impact on engagement and conversion

PX-2176.24

All-New App Store

Very positive response from developers so far

Key hires from WSJ, Buzzfeed, Sunday Times (UK), The Verge

Daily Today stories begin on 8/24 in US, 9/4 in International

Scaling a new store:

More developer collaboration and coordination required by Business Managers

More local marketing support needed in Tier 1 (China, Japan, UK, Korea, Taiwan)

-We've learned a lot
-Higher touch required by Business Management to ensure higher quality story ideas for Today, Games & Apps
-Need more local marketing support for Tier 1 countries internationally
[Handoff to Jeff]

PX-2176.25

App Store Redesign

Editorial context on Today cards

Editorial copy for collections

Text formatting options in Stories

Text sub-header module

Swoosh of Stories

Editor's Choice Date

Editor Genre Attribution

Ambient Background Video

Story preview (Tools)

Personalization

Deliver relevant editorial content on Today, Games, Apps and in Search

Editors tag apps and in-app purchases with qualitative metadata

Integrate behavioral signals with editorially curated data

[JEFF R.]
-Today the store is one-size-fits-all, major focus for next year is personalizing the store to deliver more relevant *editorial* content to each customer throughout the store

PX-2176.28

Pick from Curated Set

Taste profile
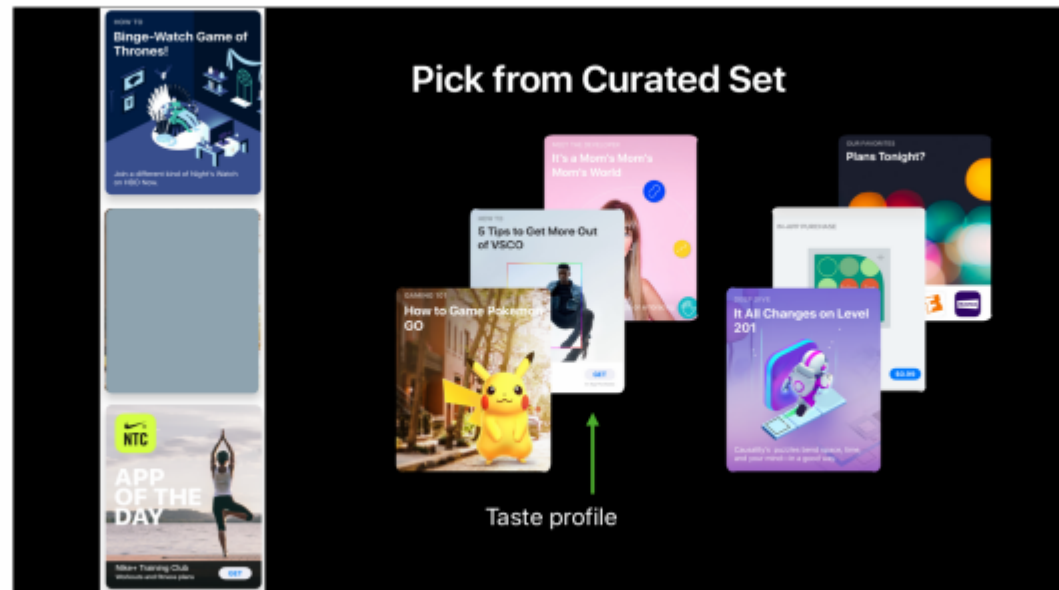
-Personalization can mean different things to different people. Our approach is to:
    -Retain our editorial voice by picking from a curated set of recommendable apps that have been evaluated by editors.
    -Target users with relevant content in certain areas of the store
    -Reorder content to show most relevant content most prominently
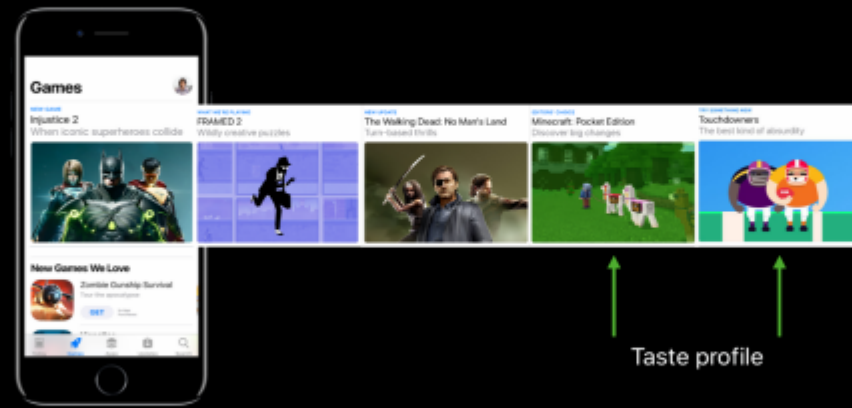   -Showing/hiding content based on relevancy

<CLICK>

-Our algorithm would pick relevant content from this curated set based on user's taste profile.
-If the taste profile includes "Photography"...

<CLICK>

PX-2176.30
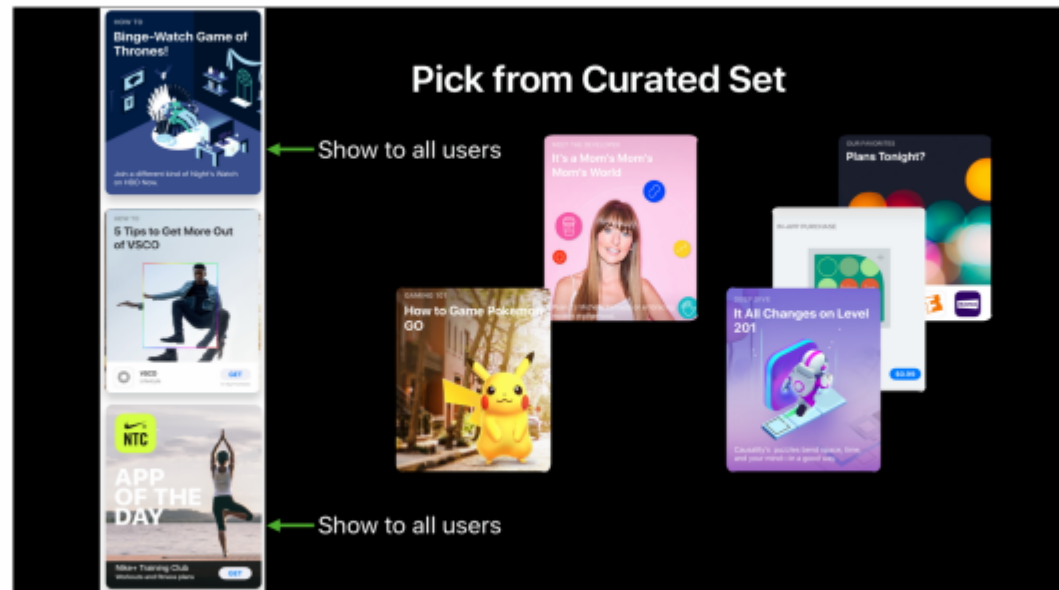
-We can pick an editorial story about photography over other stories to show the user.
-The other two cards could be shown to all users.
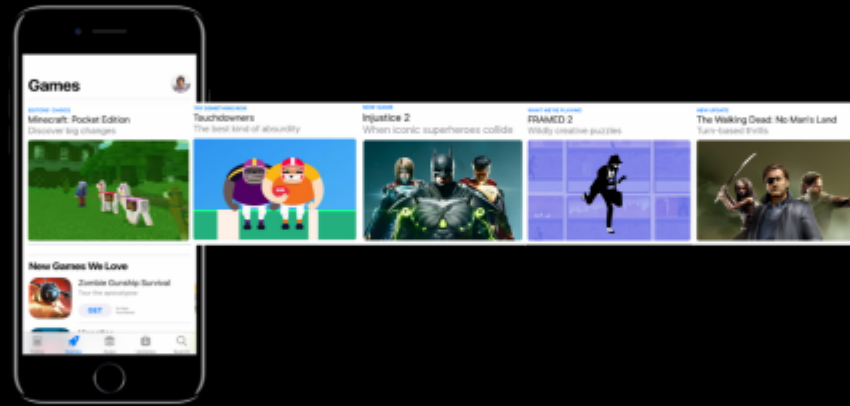
Reordering

Taste profile

-Another type of personalization: reordering and sorting
-Example: Games tab, row of hero games at the top, all have been programmed by Editorial.

<CLICK>

-Customer's taste profiles signals they have Minecraft, and like sports and physics games
-We know know first slots in the row are most impactful

<CLICK>

PX-2176.32

-Reorder the heroes so most relevant content to user shows most prominently
-Will apply same techniques throughout the entire store – all tabs and search

PX-2176.33
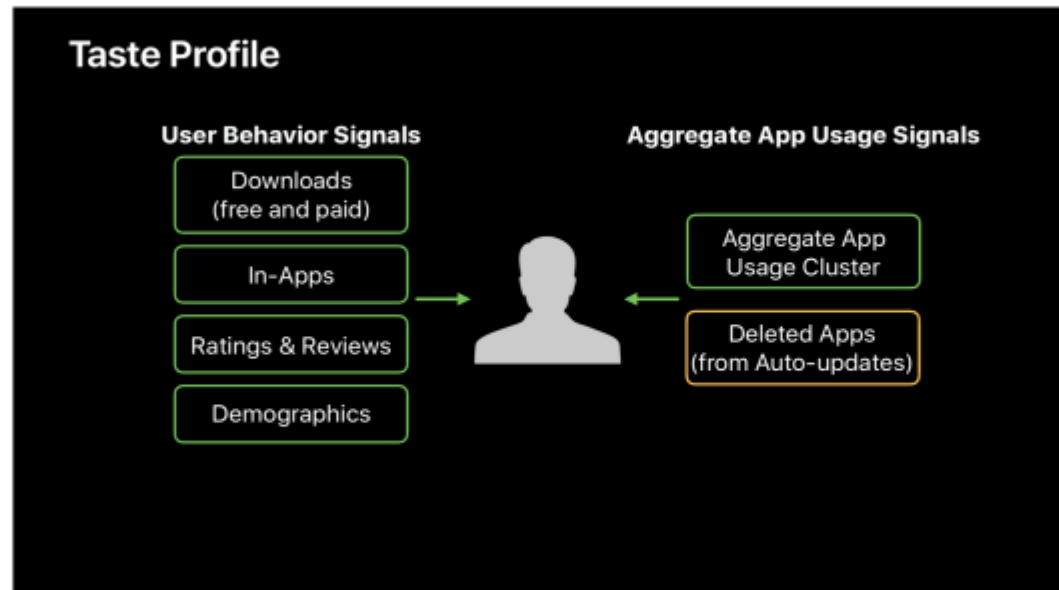
How does this work?
-Need to understand the user, understand the catalog.

User Taste Profile:
-Behavioral signals: downloads, IAPs, Ratings & Reviews, Demographics.
Aggregate App Usage Signals
- Since we don't use all of the usage data, what we're going to do is use aggregate data, focus on not using individual usage data
-For the people who have opted-in to aggregate targeted app usage clusters, that's individual usage. We don't need to use that to start
-Leverage aggregate app usage cluster info and data on deleted apps that weren't useful to users
-Ongoing Privacy Discussions on App Usage clusters

<CLICK>

PX-2176.34

Redacted

PX-2176.35

Regional Datacenter Expansion
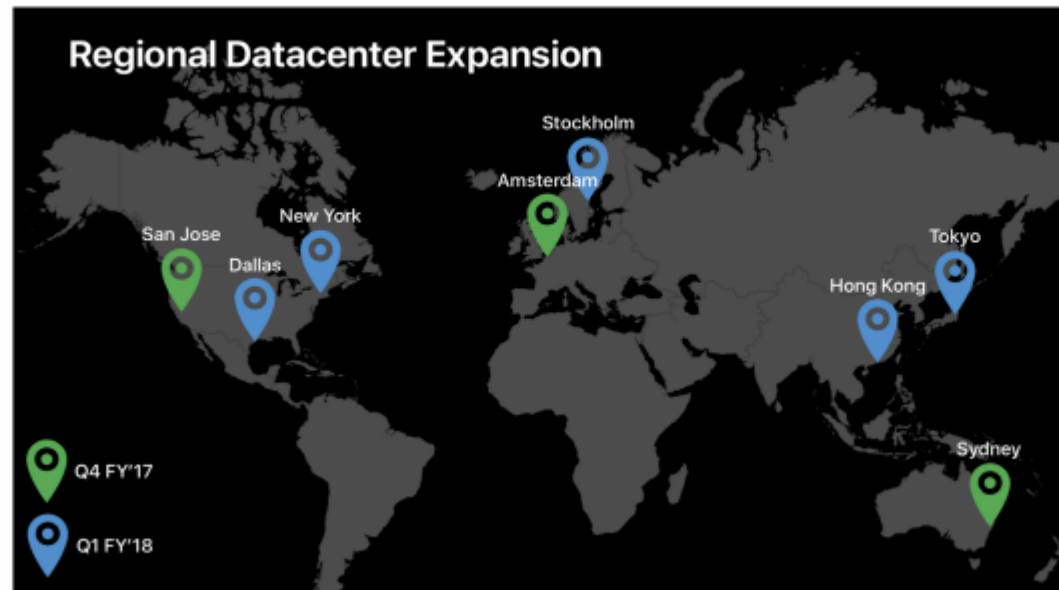
-Infrastructure investments in datacenters to power personalization

-Learned some lessons on potential impact from some personalization we've done on the storefront with More Games You Might Like...[handoff to AYMAN]

PX-2176.36

Requirements

Investment in editorial, tagging and reporting toolsets

Privacy sign off for necessary data collection

More Games You Might Like
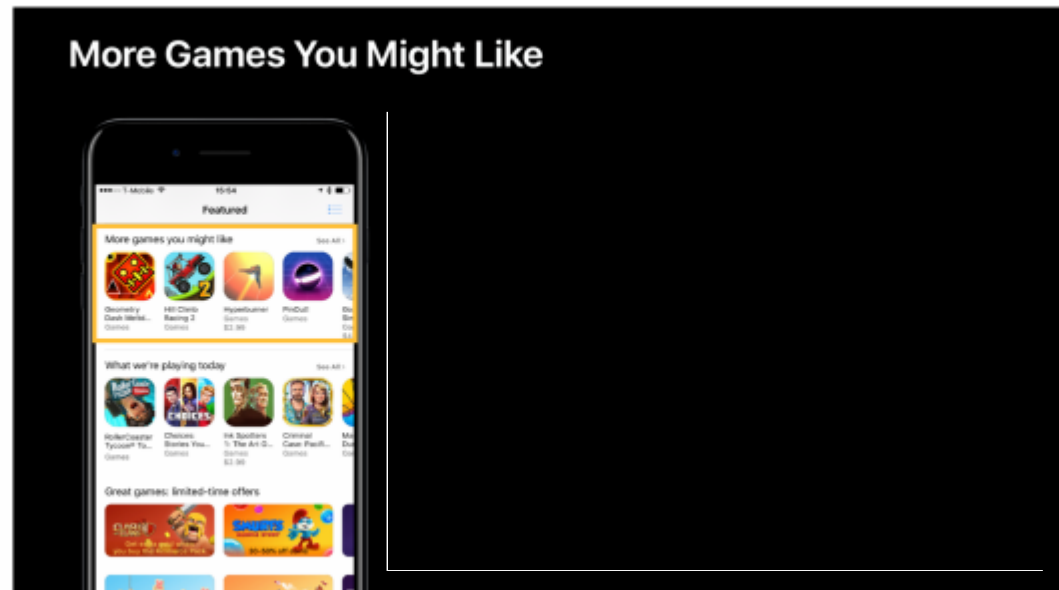
- More Games You Might Like is the only personalized swoosh on the current App Store
- Results are positive – we see twice the click-to-download conversion rate vs other swooshes on Apps Main

- While this bodes well for further personalization, it's unclear of the full potential upside of doing this for both apps and games across the entire store.

- That being said, we're going to give games personalization a higher downloads lift (vs. apps) given we've had more experience in this area.

—

Featured Content, iPhone

Impact Model Methodology & Assumptions

Observe values for Featured Games & Apps in current App Store

Consider *More Games You Might Like* impact on conversion

Featured Games & Apps downloads increase

Featured Games LTV increase

Compute annualized incremental billings
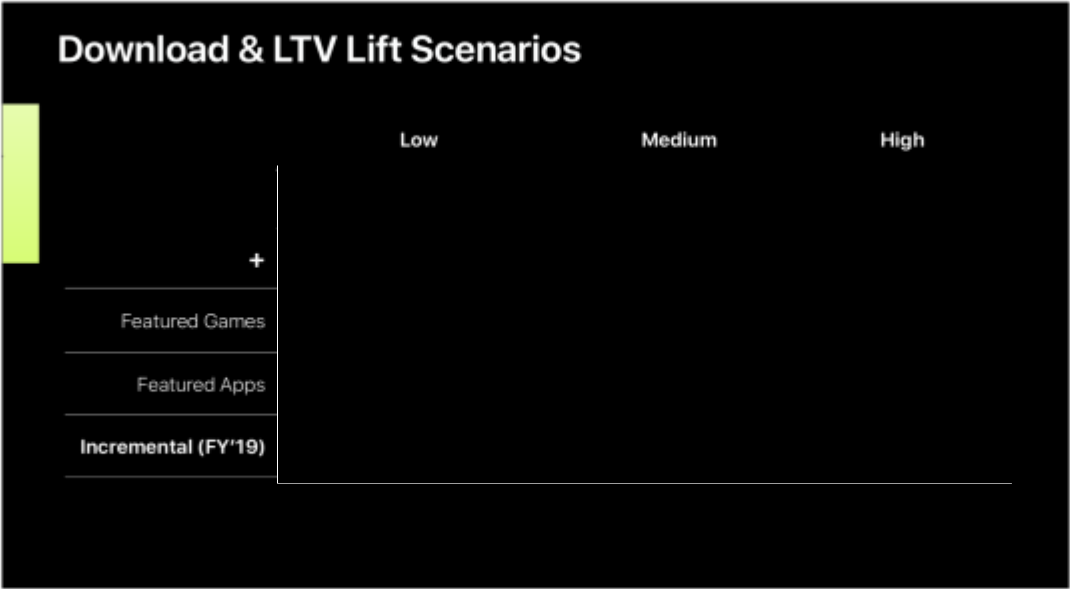
Here is the methodology we used.

- We looked at the metrics for all featured games & apps on the current store

- We considered the results of More Games You Might Like

- Our model applies a download lift for Featured Games & Apps
  and a download LTV lift for Featured Games
    - Personalization should lead to higher LTV per game download.
    - The reason we believe this is that the content is more relevant to the customer
    - Looking at the current store, if you download a game like Candy Crush from the Featured Tab it's worth ███ including in-app after download but if you download via a referral
from Facebook it's worth ████ which speaks their strong ability to target

- With all of that we compute annualized incremental billings

PX-2176.39

Featured Content Clicks Share from Visible Positions
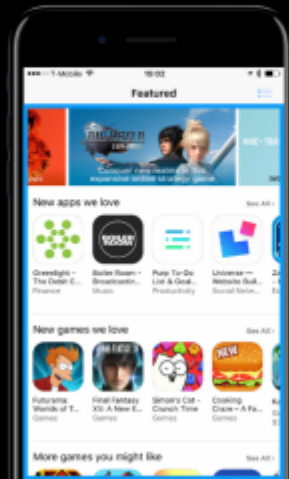
The other thing to note is that clicks are heavily weighted to the most visible positions of the store: ███ of of all Feature Content clicks go to the ███████ shown here

―――

Share from Visible Positions, iPhone

Download & LTV Lift Scenarios

	Low	Medium	High
+			
Featured Games			
Featured Apps			
Incremental (FY'19)			

How that translates here in a few scenarios from the less aggressive to the more aggressive.

Download lifts in games range from ███████ while apps are a little less with ██████ we add on the LTV bump for games

With that we arrive a year one incremental billings range from █████████████

PX-2176.41

Download & LTV Lift Scenarios

	Low	High
+		
Featured Games		
Featured Apps		
Incremental (FY'19)		

Here is how that translates into low and high scenarios

Download lifts in games range from ▮▮▮▮▮▮ while apps are a little less with ▮▮▮▮▮

We then add on an LTV bump for games

With that we arrive a year one incremental billings range from ▮▮▮▮▮▮▮▮

PX-2176.42

Editorial Content in More Places

Add Today content in left-of-home position

Siri and Spotlight support

-Investing in incredible Editorial content, want it in more places to drive users to the store from other places in the OS
-Exploring build a widget for LoH
████ of Apple News traffic comes from LoH position
-Content would ideally be personalized

-Looking into how Siri and Spotlight could surface Today stories, collections, lists too, in addition to the apps they recommend today.

PX-2176.43

App Nutrition Labeling

Highlight Accessibility

Support Apple technologies: Apple Pay, ARKit, Metal, CarPlay, HomeKit, etc.

Provide users more transparency

Privacy, ads, IAP range, location, contacts, battery

Over-the-air download size

Higher ranking in recommendations, search and featuring where relevant

---

Developers will claim what features and technologies they have enabled and App Review will verify—tougher to do with some features so avoiding false positives is critical

Highlighting when an app utilizes accessibility features
Voice over, screen control, all accessibility features, captioning in videos

Additional Apple technologies: Apple Pay, ARKit, Metal, CarPlay, HomeKit, etc.

We hope more transparency will drive good behaviors in the developer community

Device size-calculation:
-Top-requested feature from developers.
-Show installed size, which varies per device. Updates sized differently.
-Display what will be sent over the air.
-Customers are choosing not to download an app as the size is incorrect, (installed size today), they believe download size is going to exceed their bandwidth allotment
-Important to emerging markets

Take into account for ranking in recommendations, search, featuring

PX-2176.44

FY'18 Focus Areas

Discovery

Growth

Developers

–Second focus area for FY18 is growth.

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

Growth

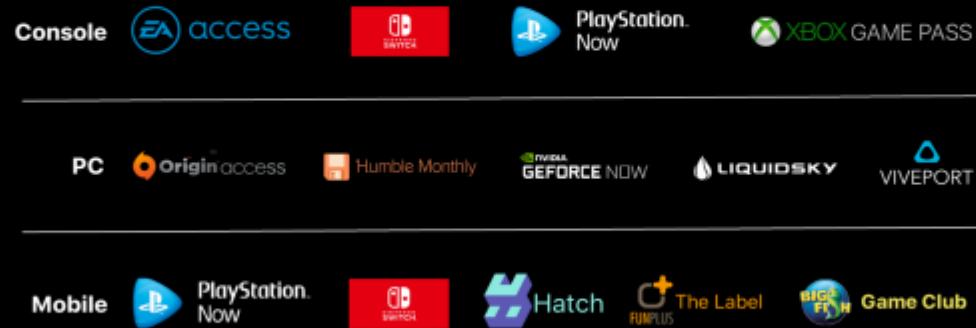**Apple Games Subscription Service**

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.47

APL-APPSTORE_09086228

Industry embracing subscriptions

Console	EA access	Nintendo Switch	PlayStation Now	XBOX GAME PASS
PC	Origin access	Humble Monthly	NVIDIA GEFORCE NOW	LIQUIDSKY	VIVEPORT
Mobile	PlayStation Now	Nintendo Switch	Hatch	The Label FUNPLUS	BIG FISH Game Club

All mobile services announced but not launched

- Console:
  - EA Access: July 2014, Xbox only, Download only, $4.99/month, only EA titles
  - PlayStation Now: Jan 2014, PS3, then PS4, Streaming, $19.99/month, only PS3 games right now
  - XBOX Game Pass: Announced launch in Spring 2017, XBOX + Windows 10, download only, $9.99/month
- PC
  - EA Origin Access: Origin Access, Jan 2016, PC only, Download-only, $4.99/month, only EA titles
  - Humble Bundle: Nov. 2015, PC only, Download-only, $12/month, 100K+ subscribers
  - Nvidia's GeForce Now: 2015, PC only, Streaming access, $25 for 10-20 hours of streaming play (depending on device)
  - Liquid Sky: Beta announced for early 2017, PC + Android, Streaming access, Ad-supported or $9.99 for 20-80 hours of streaming play (depending on level
- Mobile:
  - PlayStation Now: Not-yet-announced mobile extension of an existing streaming service for PlayStation users, Streaming access to over 450+ PS3 games to start, with PS4 games to follow.
  - Hatch: Spun off from Rovio and launching in 2017 (Android first); Streaming access to over 100 mobile-first premium games from over 50 developers; Ad-supported business to start, followed by an ad-free subscription offering.
  - The Label: Backed by Chinese gaming company FunPlus; Announced that they plan to be the "HBO of mobile gaming."
  - "Big Fish Game Club," which plans to offer a subscription to its first party games catalog. Game Club is currently available on PC for $6.99/month
  -

PX-2176.48

Games Subscription Service

Games: 100+ at launch, 10 new per month

Play Experience: No IAP, no ads

Value: One price for the whole family, all-you-can-play

Developers: Viable model for premium mobile games

Launch Plan:
FY'18: Design, build, license, announce
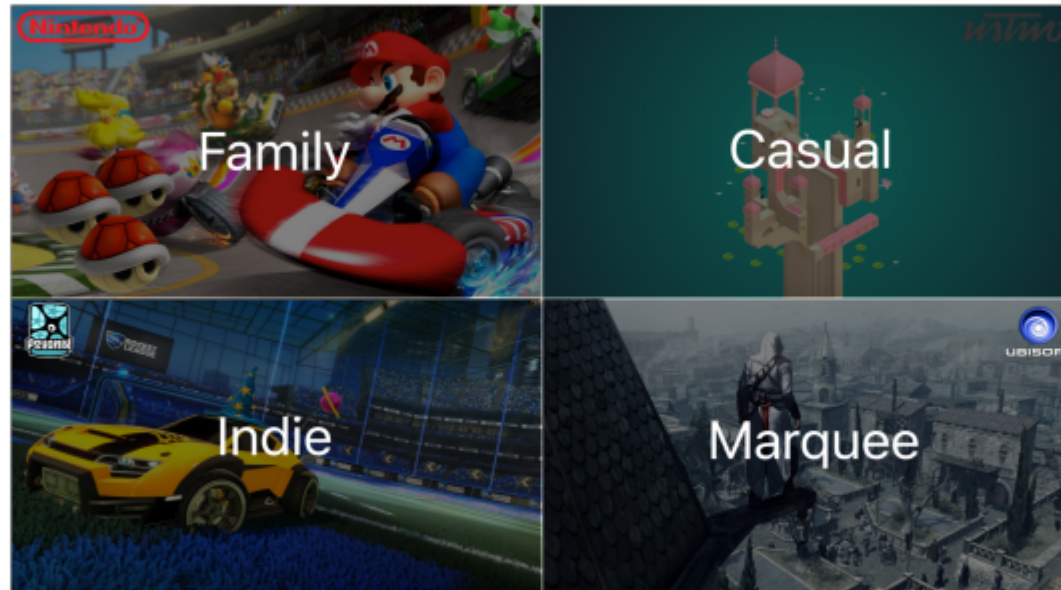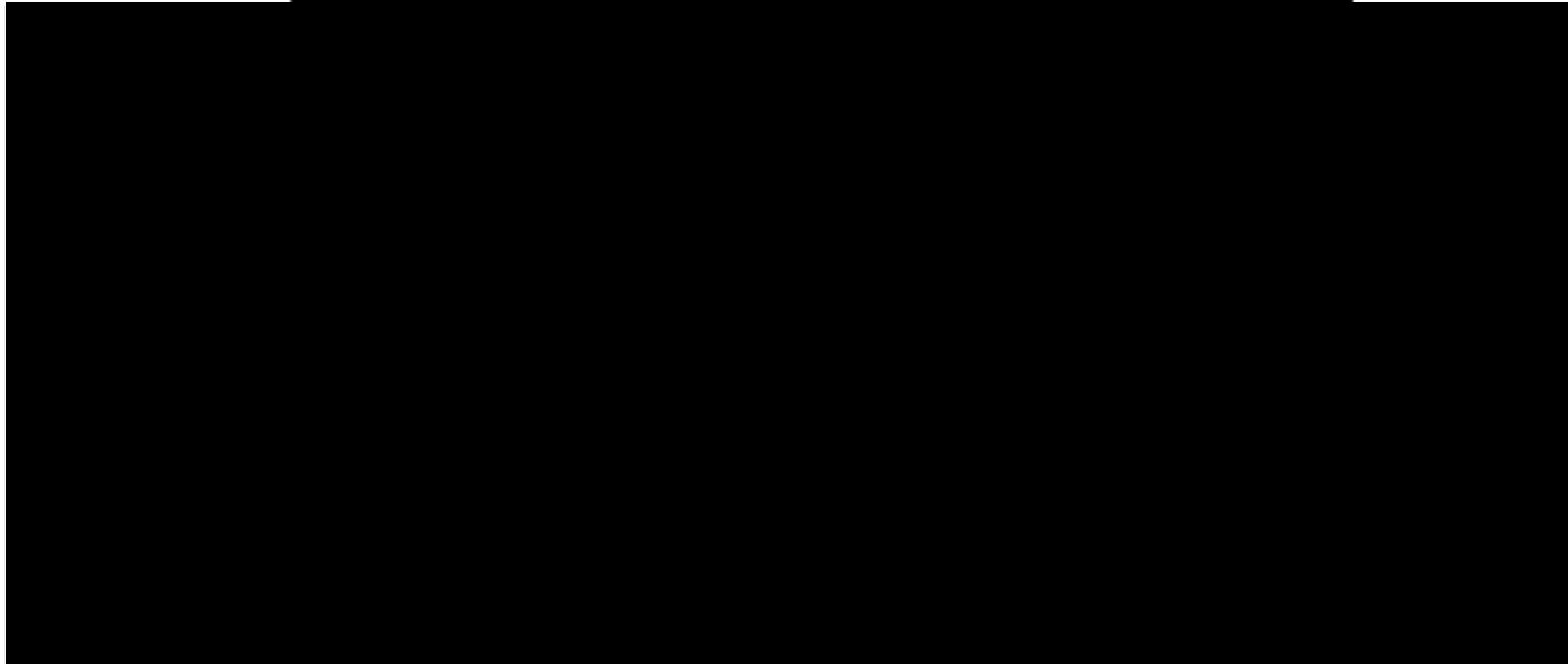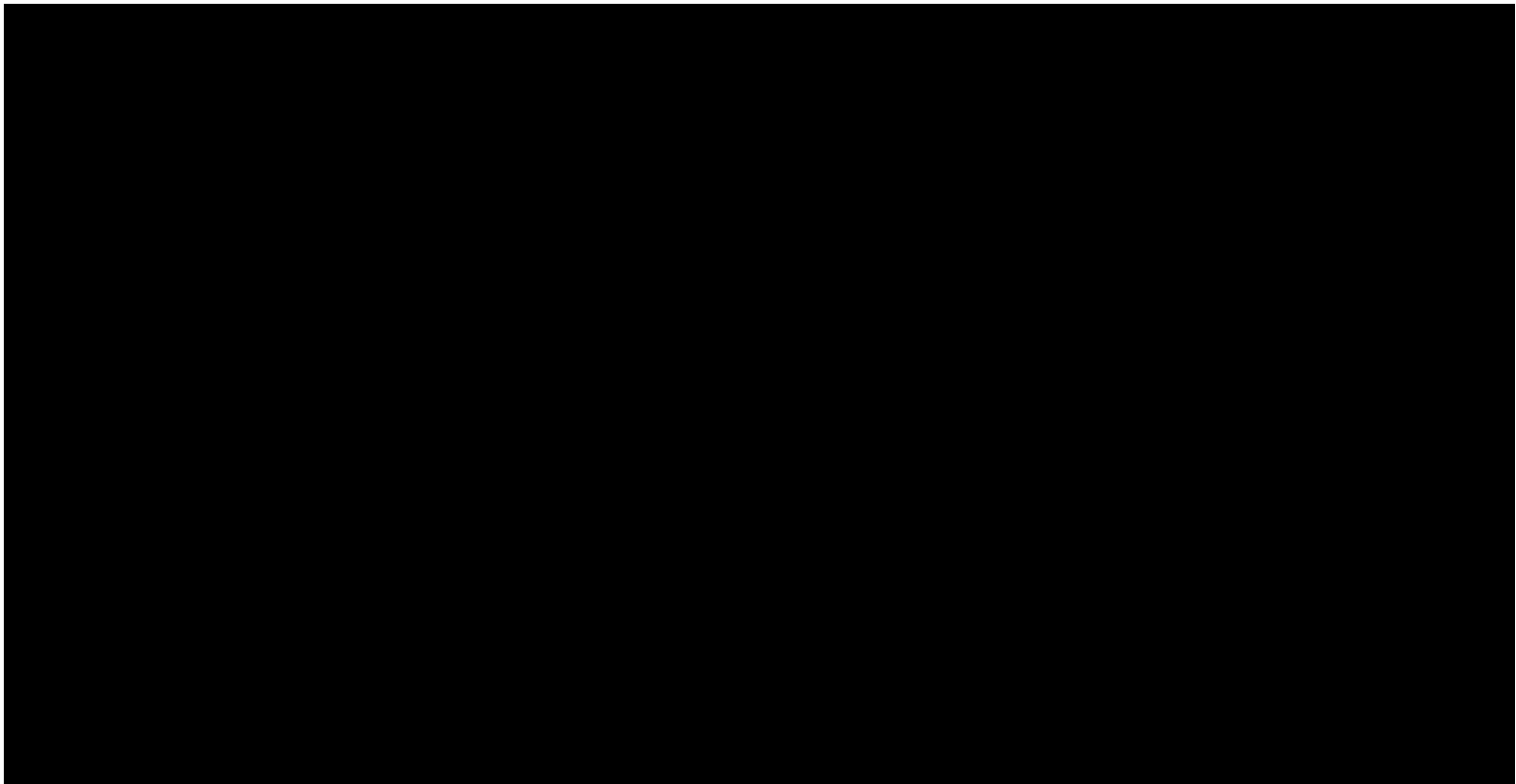FY'19: Launch, scale

PX-2176.49

Perfect for families with kids

Family members included for no additional fee

No in-app purchases, no ads, no behavioral targeting

Many games appropriate for kids

Restrictions in the cloud

Privacy-centric personalization

PX-2176.50

Examples:
Mario Kart from Nintendo
Casual—Monument Valley is the exception to the rule these days, and our service will be the impetus to bring more titles like this to mobile.
Core is a broad segment, and contains indie games as well as AAA console games. We plan to target both ends of this spectrum with games like Rocket League and Assassins Creed.

PX-2176.51

Content Acquisition Plan

Tier	Cost	Launch #	Annual Adds #
AAA			
AA			
Indie			
Other			

PX-2176.52

APL-APPSTORE_09086233

Target Studios

AAA	AA	Indie

Here are the top 30 studios we'd like to target. Existing and new IP. We have a target list of a few hundred titles, but these are the developers we'd prioritize.

Great for premium developers

Super Mario Run   Lara Croft GO   Chameleon   Severed

Improved model for premium

Super Mario Run Lara Croft GO Chameleon Severed

PX-2176.55

Great for premium developers

Super Mario Run   Lara Croft GO   Chameleon   Severed

PX-2176.56

Improved model for premium

Super Mario Run Lara Croft GO Chameleon Severed

PX-2176.57

Content Costs

PX-2176.59

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.60

APL-APPSTORE_09086241

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.61

APL-APPSTORE_09086242

Vision

Communicate with our customers in a way that is personalized, timely, and relevant that enriches their experience with our products and services.

We are talking about CRM, but CRM is a tool, the benefit and result is customer engagement (leading to customer happiness and increased LTV)

PX-2176.62

However today

Not personalized

Not always relevant

Not always timely

Email only

We need to be realistic, right now we are limited to one channel email
With the exception of a few manual exceptions in Music (weekly Spotlight, limited to top 10 markets EOY), our communications are generic and not personalized
Since they are not personalized, they are often not relevant, leading to reduced open rates/response, customer annoyance
Comms are also not timely, timing should be driven at the customer level, not the campaign level

Email Engagement - last 12 months

	Audience Size	% of Active Accts
Transacting Accounts	958M	100%
Emailable Audience	607M	63%
Clickthrough 1x	36.8M	4%
Clickthrough 2x	11.4M	1.2%
Clickthrough 4x	3.6M	0.4%

Email channel is dying or non-existent, especially in markets like China. We need a multi-channel approach, optimized by customer preference/response

Accounts transacting in last 1 year- includes all accounts who have made a transaction in the last 365 days

Email Openers - a combination of user manual opens and automatic mail client loads on any iTunes email in last 365 days

Email Click through - unique accounts who have clicked on any 1 or more iTunes emails in last 365 days (truest measure of engagement)

Additional Data:
Unique Responders 2x - have clicked on 2 or more emails - 11.4M - 1.2% of active accts
Unique Responders 4x - have clicked on 4 or more emails - 3.6M - 0.4% of active accts
Unique Responders 6x - have clicked on 6 or more emails - 1.8M 0.2% of active accts

Source = GBI and ICA as of July 19, 2017

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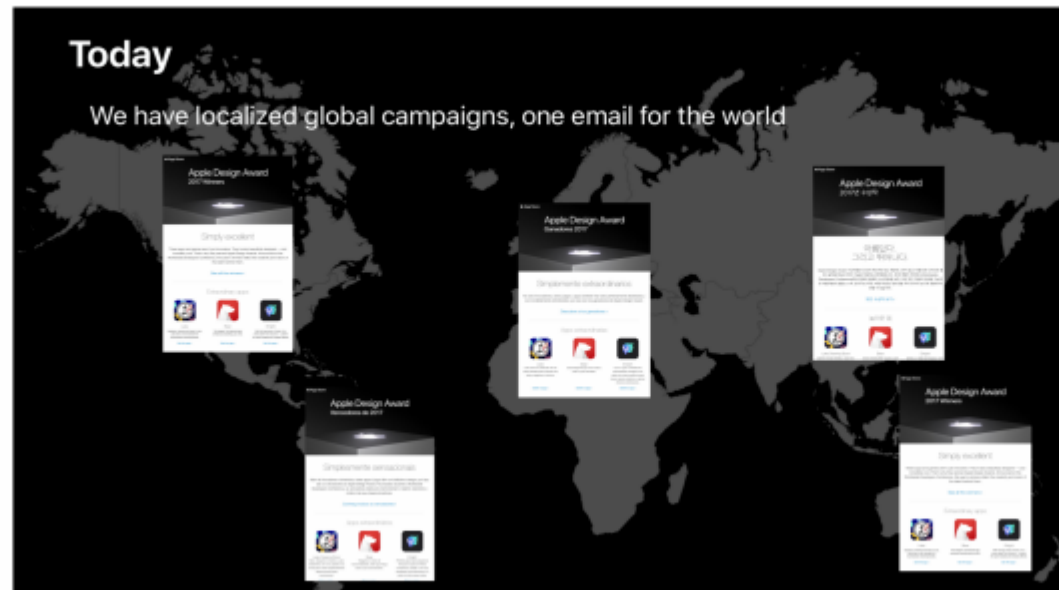
Today, we execute email one of two ways. First, we send globally relevant content, translated by Geo, but essentially, we are sending one email to the world

PX-2176.65

Second, we send our regional campaigns, with local relevant content, in the native language. But, its the same email for every person in that country or Region. Regardless of your previous app purchases or interests.

So, our marketing needs to leverage the App Store recommendations engine, so our communications to every customer are also personalized, making them relevant. Manual tests have shown significant lift in App downloads as compared to generic email (50% lift)
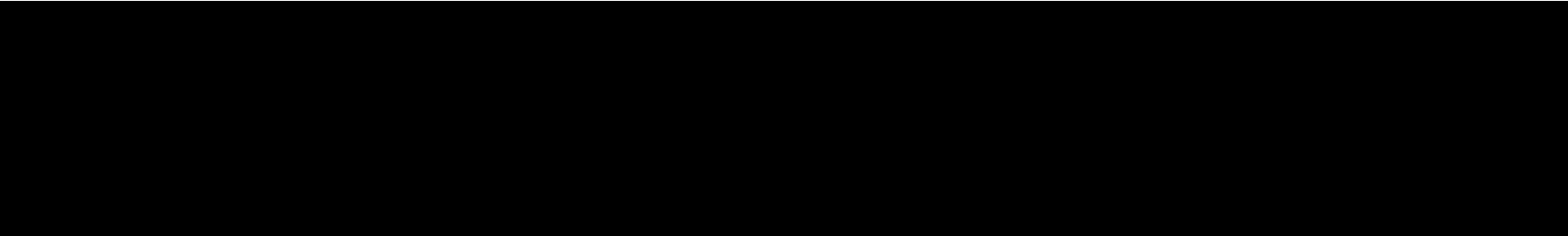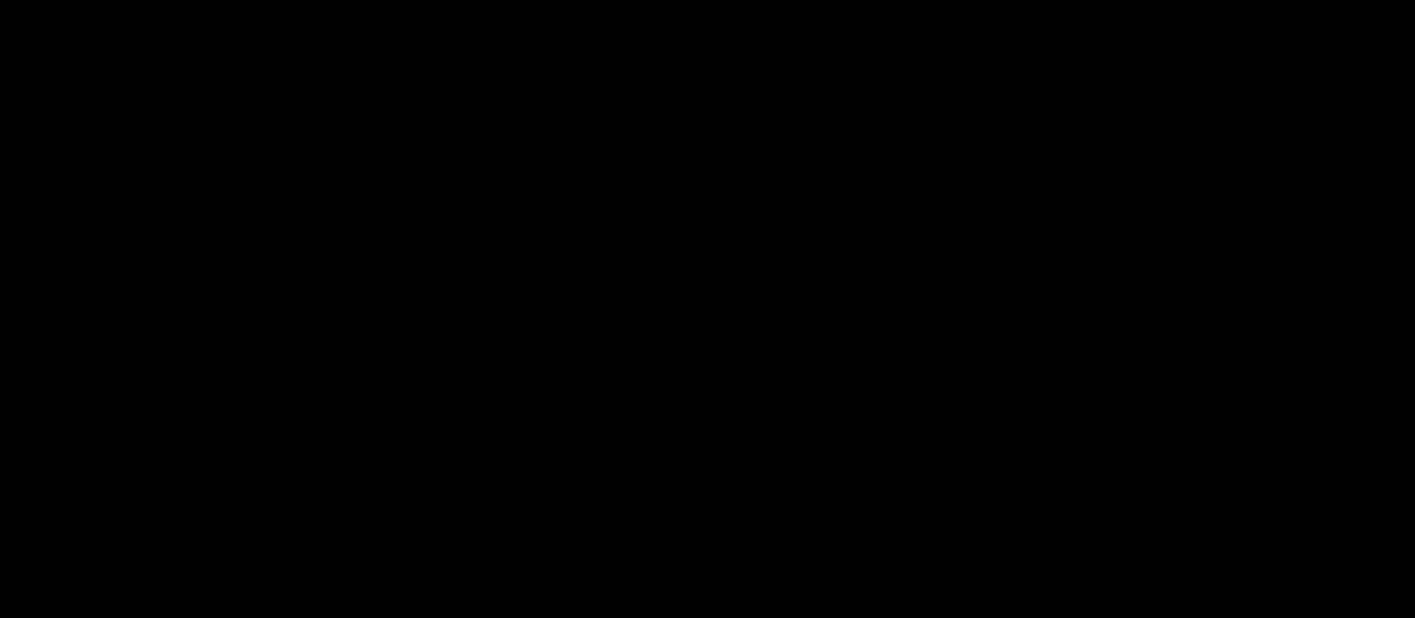
PX-2176.67

Future
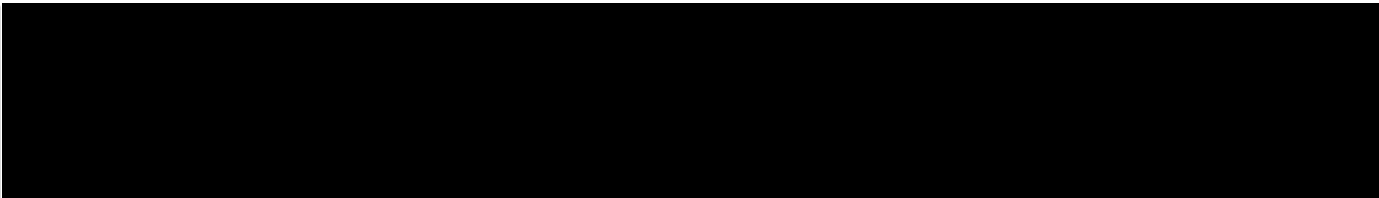
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So what are we doing?

Current Project Status

PX-2176.71

Recent Email and Push Notification Test Results

PX-2176.72

App Store - Year 1 Benefit (FY'19)

PX-2176.73

All Services - Year 1 Benefit (FY'19)

	Low	High
App Store		
Apple Music		
Other IS&S		
Total		

App Store assumptions:
payer conversion assumes increase in annual paying customers
payer retention assumes increase in MRPPU (Median Revenue...)

Music –
Movies
Books –
Games
iCloud –

PX-2176.74

CRM Headcount Needs

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.76

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.77

Relaunching in Brazil
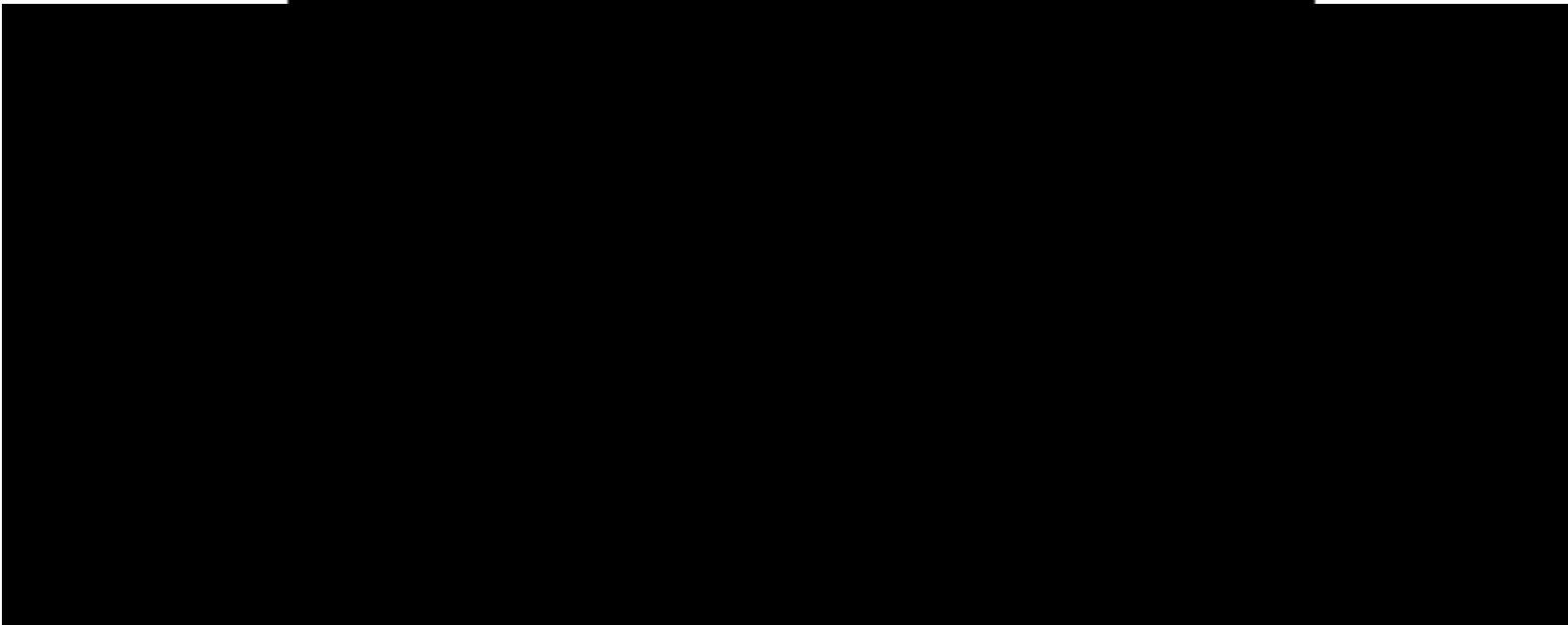
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🇰🇷 **Relaunching in Korea**

Unlocking Turkey
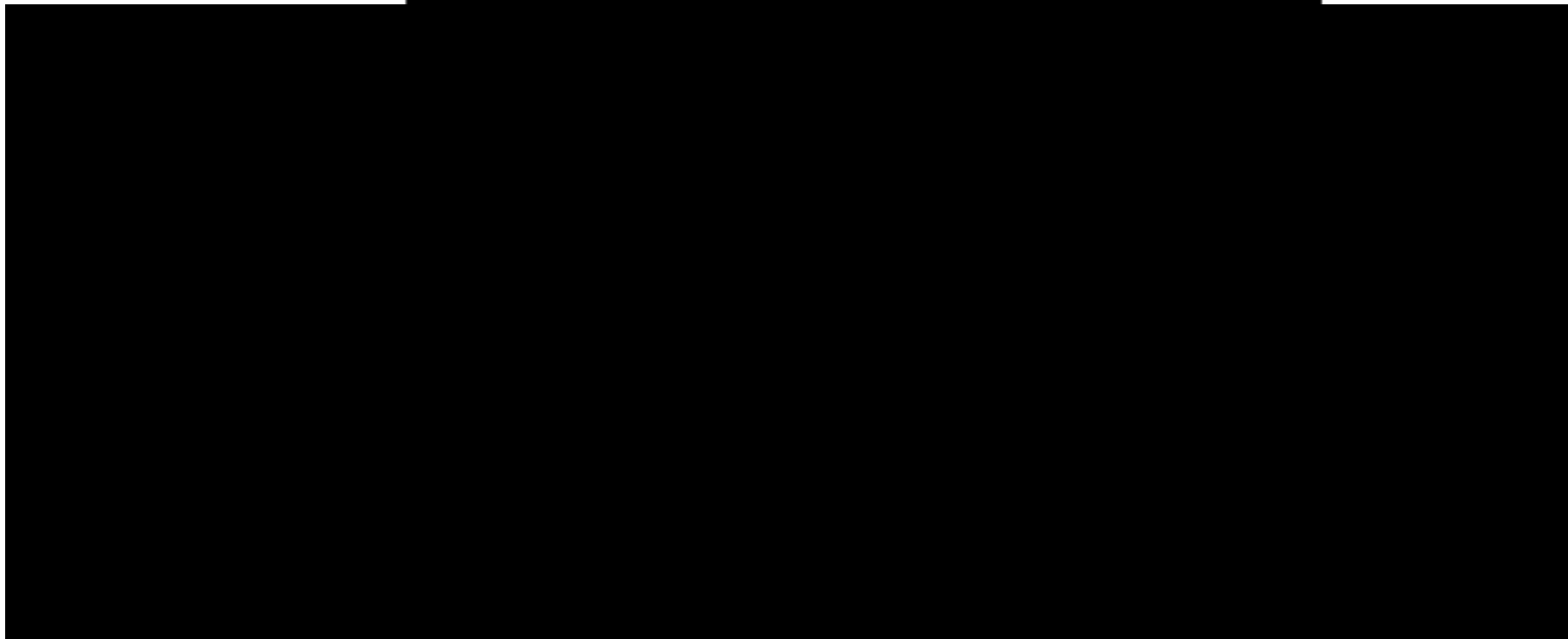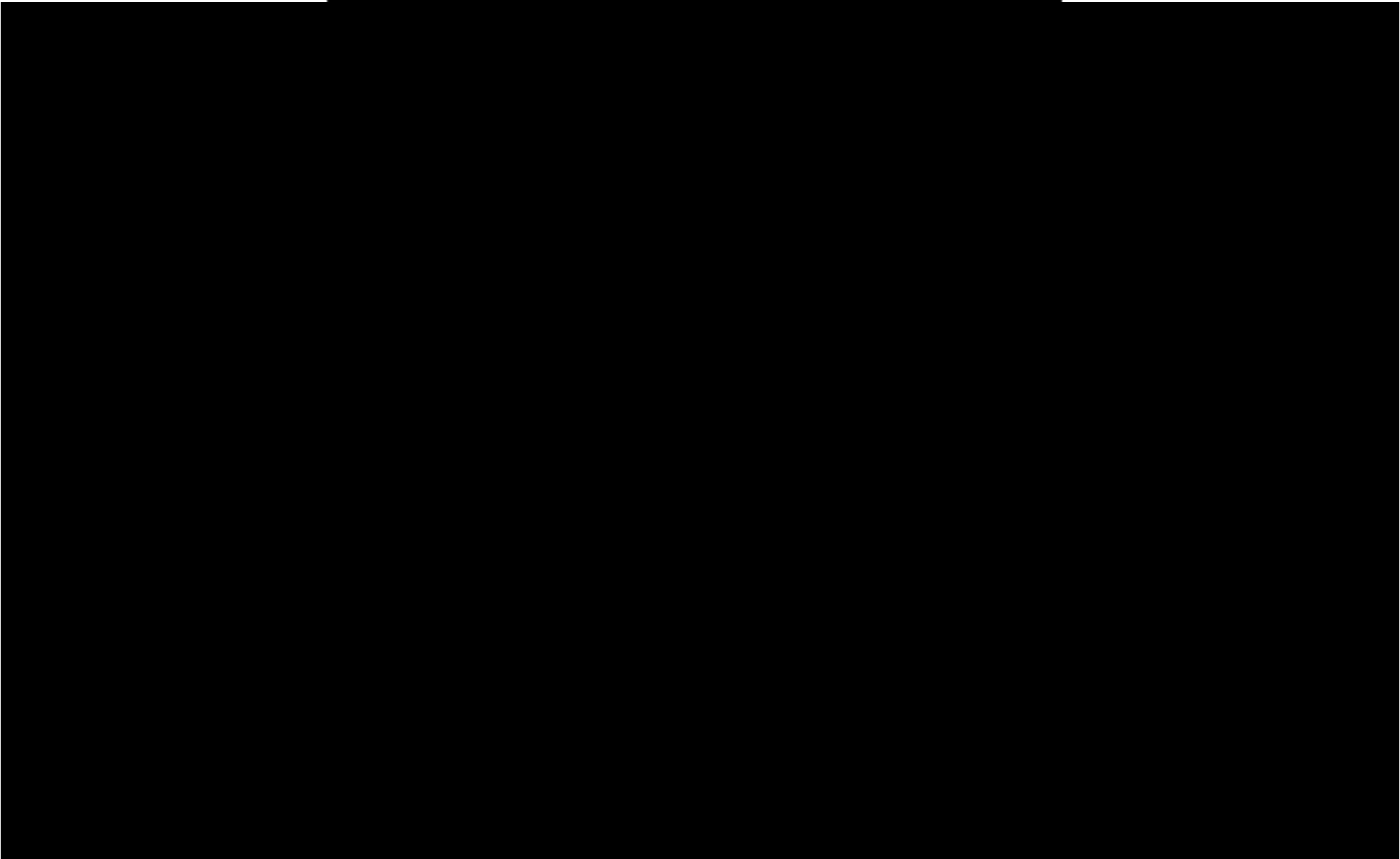
🇷🇺 Growth in Russia
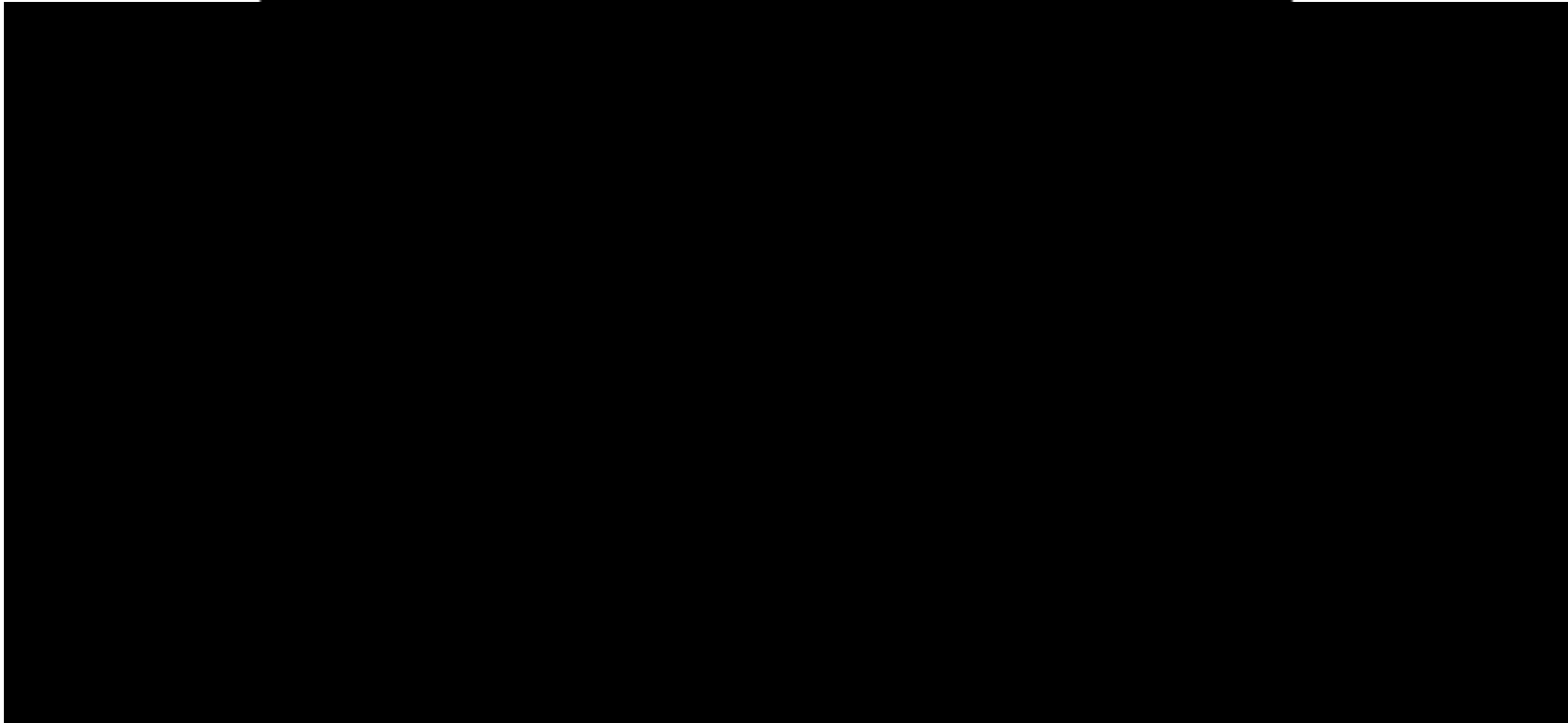
Adding Local Languages

Adding Local Languages

Right to Left Language Support

Market Development & Localizing Editorial

PX-2176.85

Adding local storefronts

28 → 56
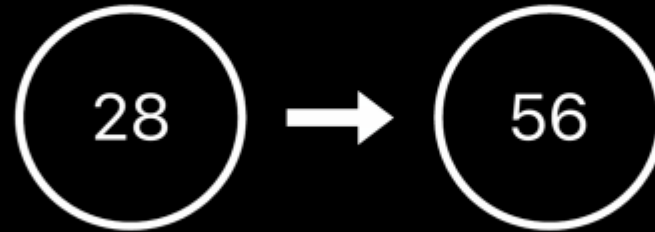
Countries we can reach in local language with additional resources
We are curating main

PX-2176.86

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.87

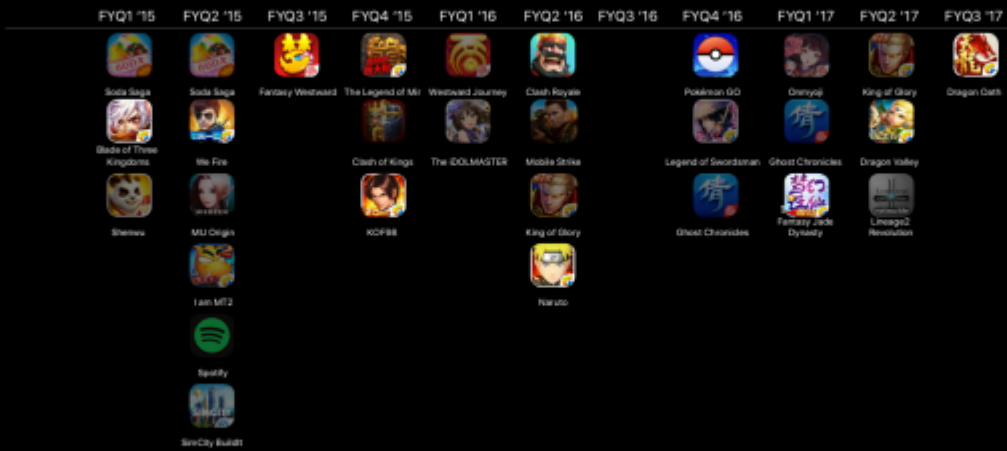APL-APPSTORE_09086268

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.88

Payments Launches & Roadmap

PX-2176.89

APL-APPSTORE_09086270

Payments Program to Date

PX-2176.90

Payments Contribution by Fiscal Year

Payments Contribution by Payment Type by Fiscal Year
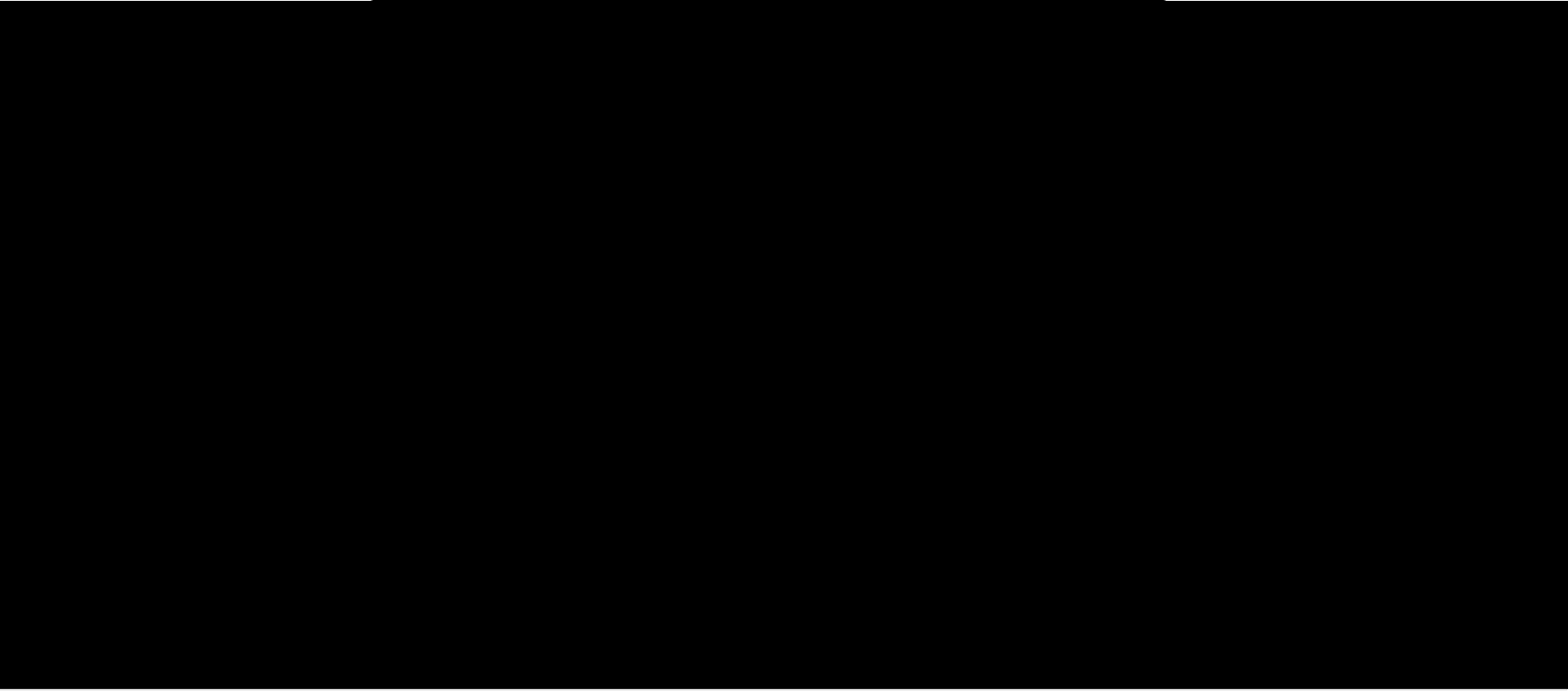
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Gift Card Expansion

* * *
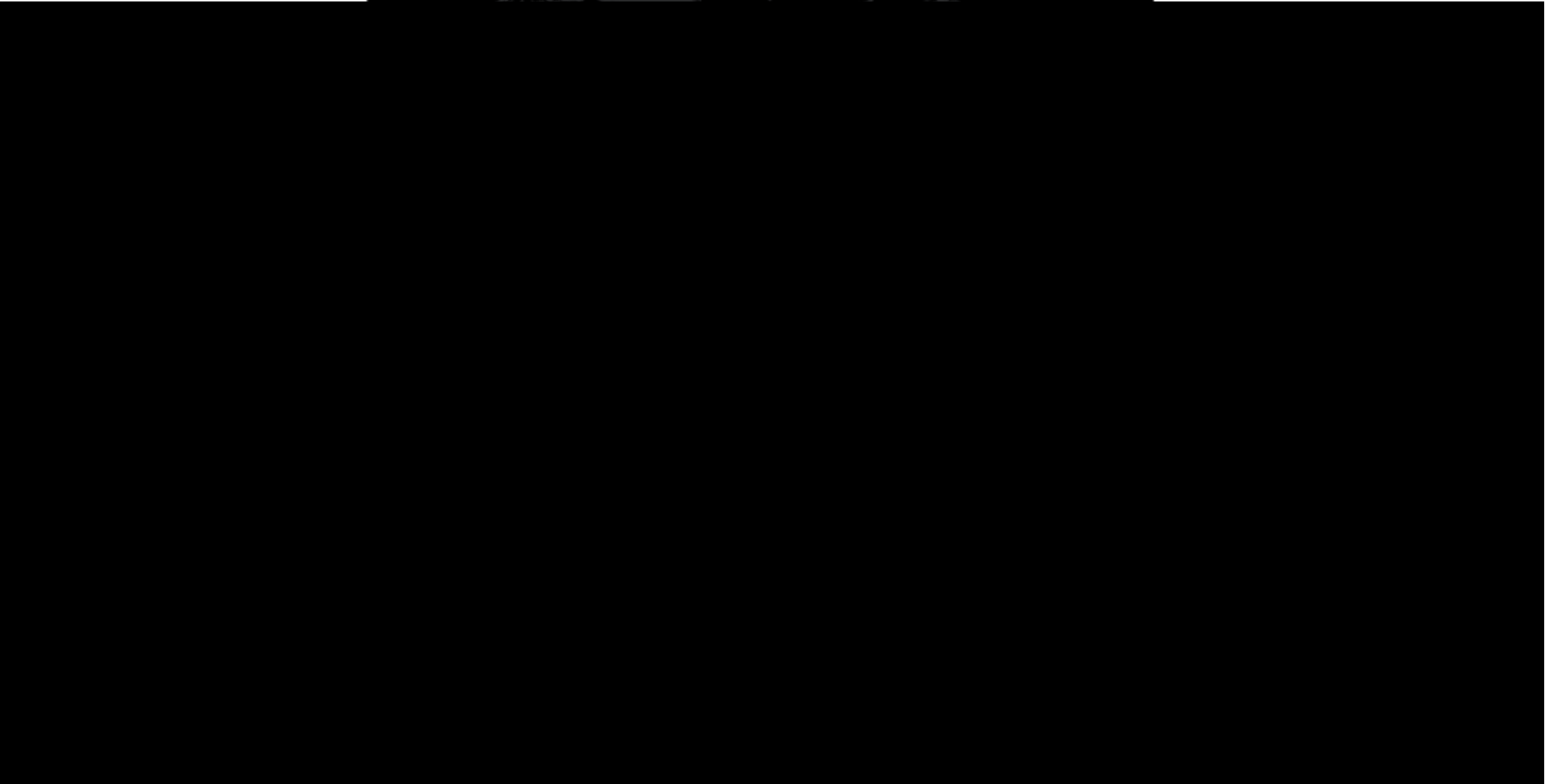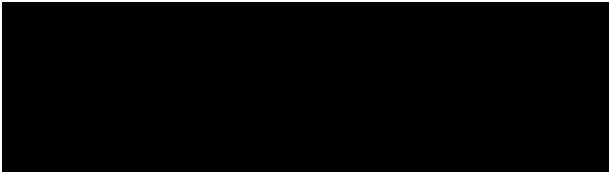
Core Commerce FY'17 Results

Core Commerce Program Roadmap

PX-2176.95

APL-APPSTORE_09086276

Core Commerce FY'18 Forecasted Impact

Subscriptions FY'18 Features
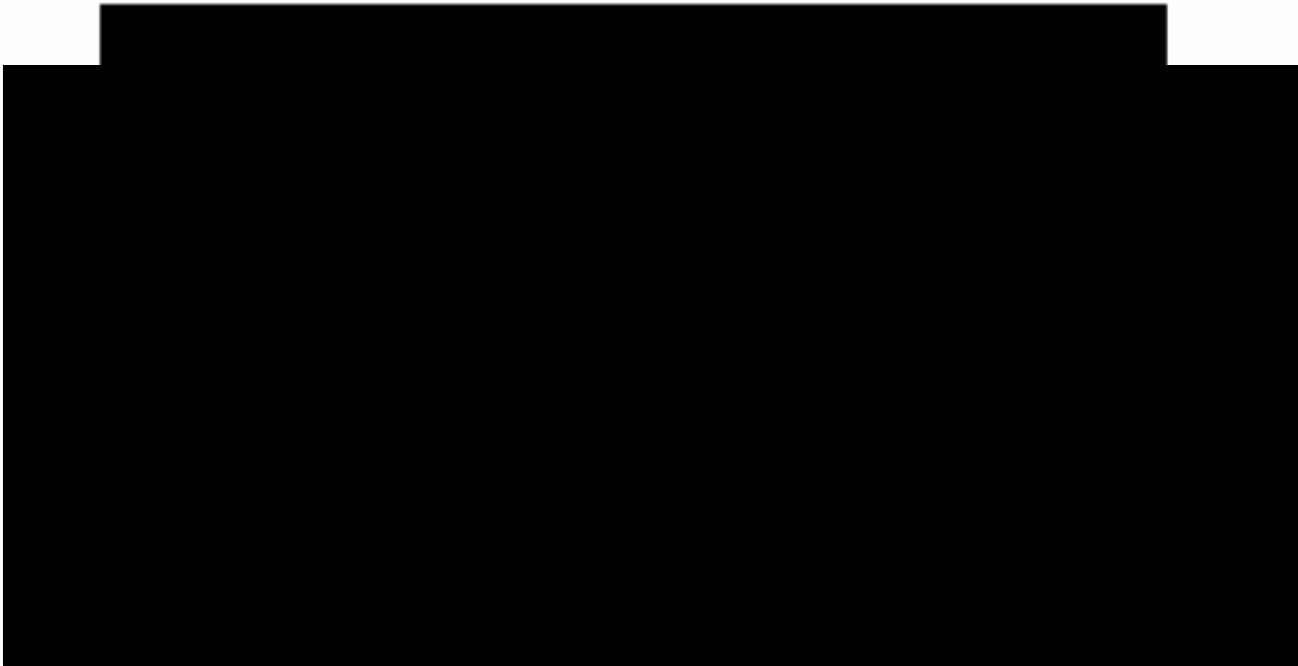
Apple Store App
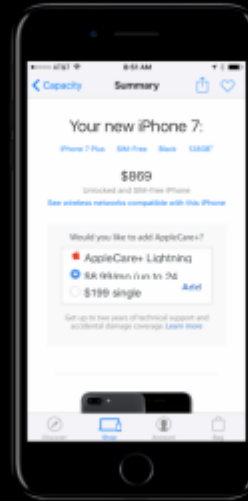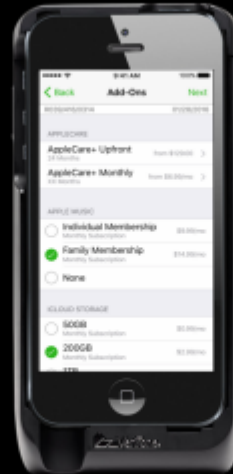
Easy Pay

Easy Pay

PX-2176.101

Preliminary Flow
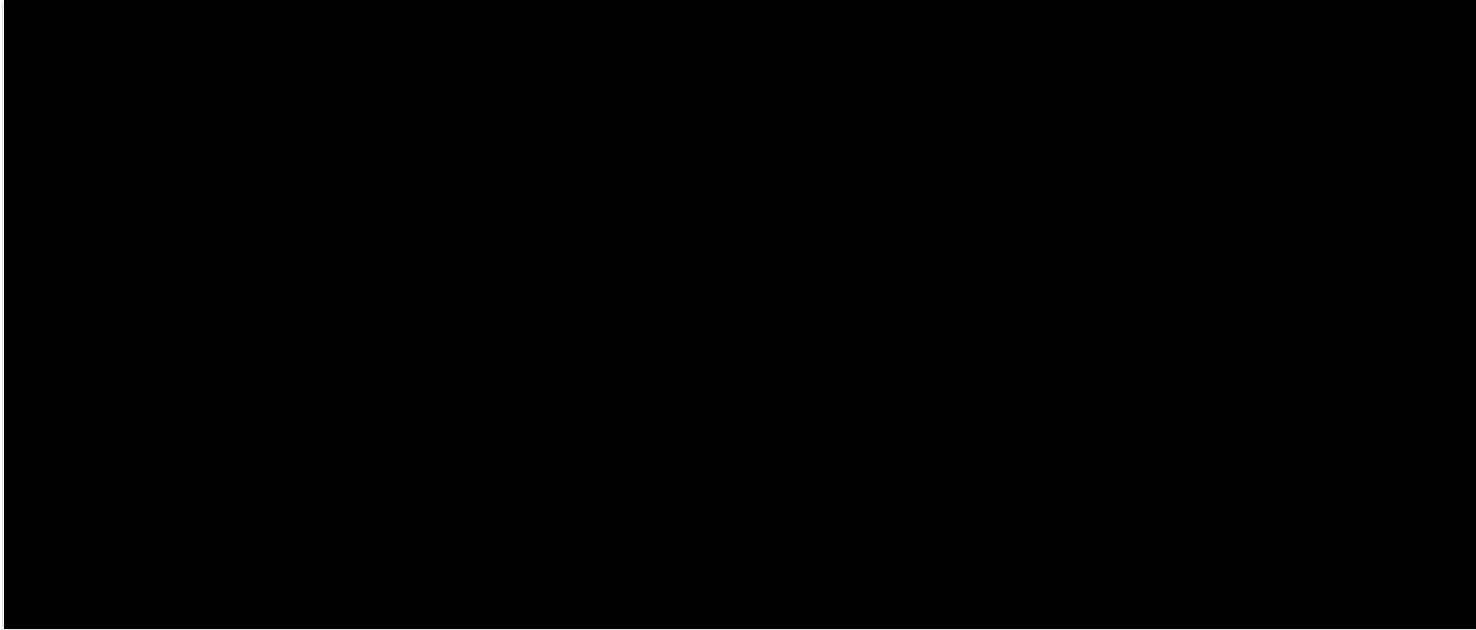
Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.103

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.104

Breakout Hits Definition

Breakout Hits Trend

FYQ1 '15	FYQ2 '15	FYQ3 '15	FYQ4 '15	FYQ1 '16	FYQ2 '16	FYQ3 '16	FYQ4 '16	FYQ1 '17	FYQ2 '17	FYQ3 '17
Soda Saga	Soda Saga	Fantasy Westward	The Legend of Mir	Westward Journey	Clash Royale		Pokémon GO	Onmyoji	King of Glory	Dragon Oath
Blade of Three Kingdoms	We Fire		Clash of Kings	The iDOLMASTER	Mobile Strike		Legend of Swordsman	Ghost Chronicles	Dragon Valley	
Shenwu	MU Origin		KOF98		King of Glory		Ghost Chronicles	Fantasy Jade Dynasty	Lineage2 Revolution	
I am MT2					Naruto					
Spotify										
SimCity BuildIt										

Breakout Hits Trend

	FYQ1 '15	FYQ2 '15	FYQ3 '15	FYQ4 '15	FYQ1 '16	FYQ2 '16	FYQ3 '16	FYQ4 '16	FYQ1 '17	FYQ2 '17	FYQ3 '17
	Soda Saga	Soda Saga	Fantasy Westward	The Legend of Mir	Westward Journey	Clash Royale		Pokémon GO	Onmyoji	King of Glory	Dragon Oath
	Blade of Three Kingdoms	We Fire		Clash of Kings	The iDOLMASTER	Mobile Strike		Legend of Swordsman	Ghost Chronicles	Dragon Valley	
	Shenmu	MU Origin		KOF98		King of Glory		Ghost Chronicles	Fantasy Jade Dynasty	Lineage2 Revolution	
		I am MT2				Naruto					
		Spotify									
		SimCity BuildIt									

- Highlighted if new in same quarter

PX-2176.107

Breakout Hits Country of Origin 2014-17

PX-2176.108

APL-APPSTORE_09086289

Breakout Hits Diaspora

	FYQ2 '16	FYQ3 '16	FYQ4 '16	FYQ1 '17	FYQ2 '17	FYQ3 '17
Lineage2 Revolution				Korea	Korea	Taiwan Hong Kong Thailand Singapore
King of Glory	China			Taiwan	China Taiwan Hong Kong Thailand	Thailand
Onmyoji			China	China Canada Australia UK	Taiwan Hong Kong	
Ghost Chronicles		China	China	China	Taiwan	
Legend of Swordsman		China	China	Taiwan Hong Kong		

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Breakout Hits in Fast Movers FYQ3 '17
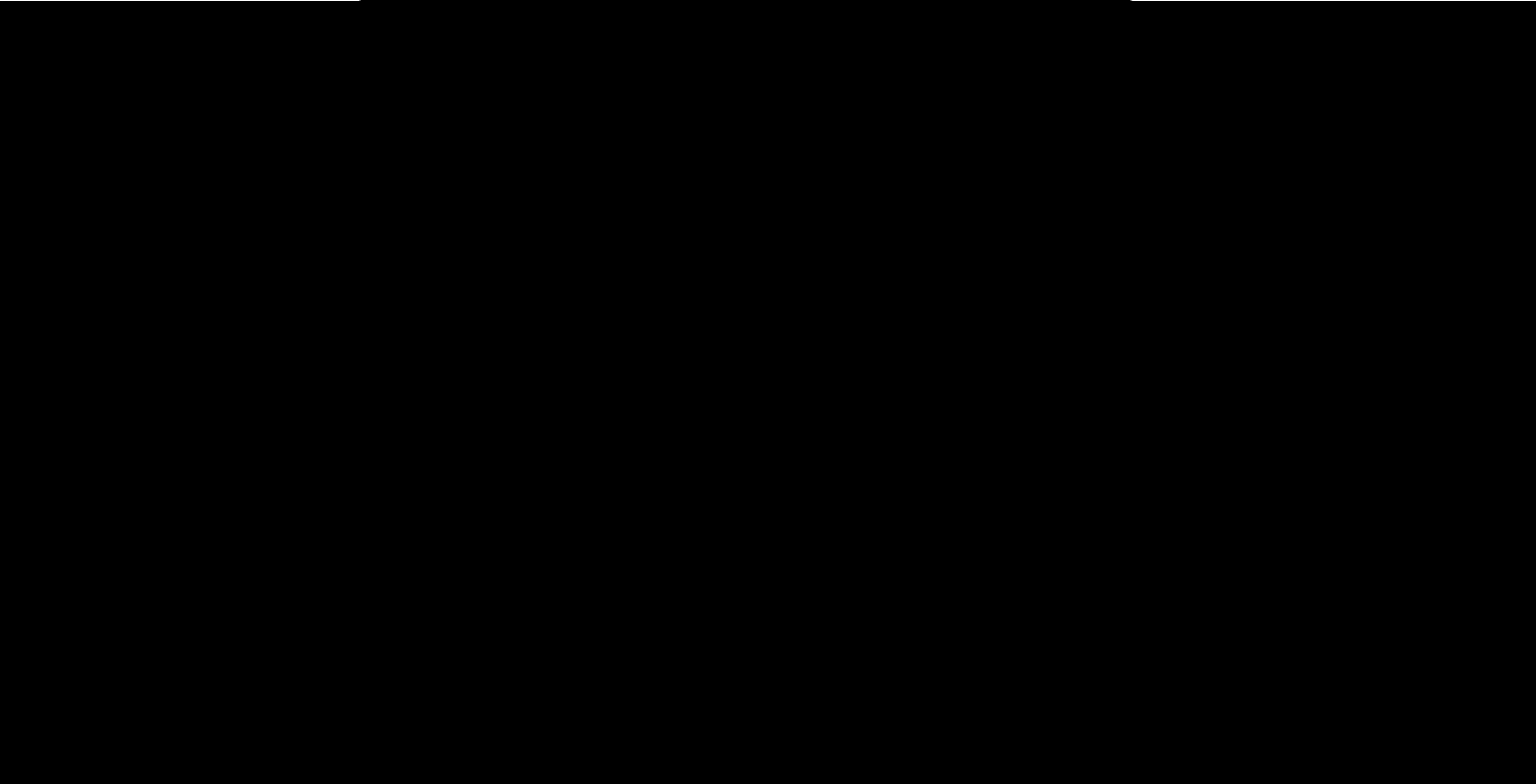
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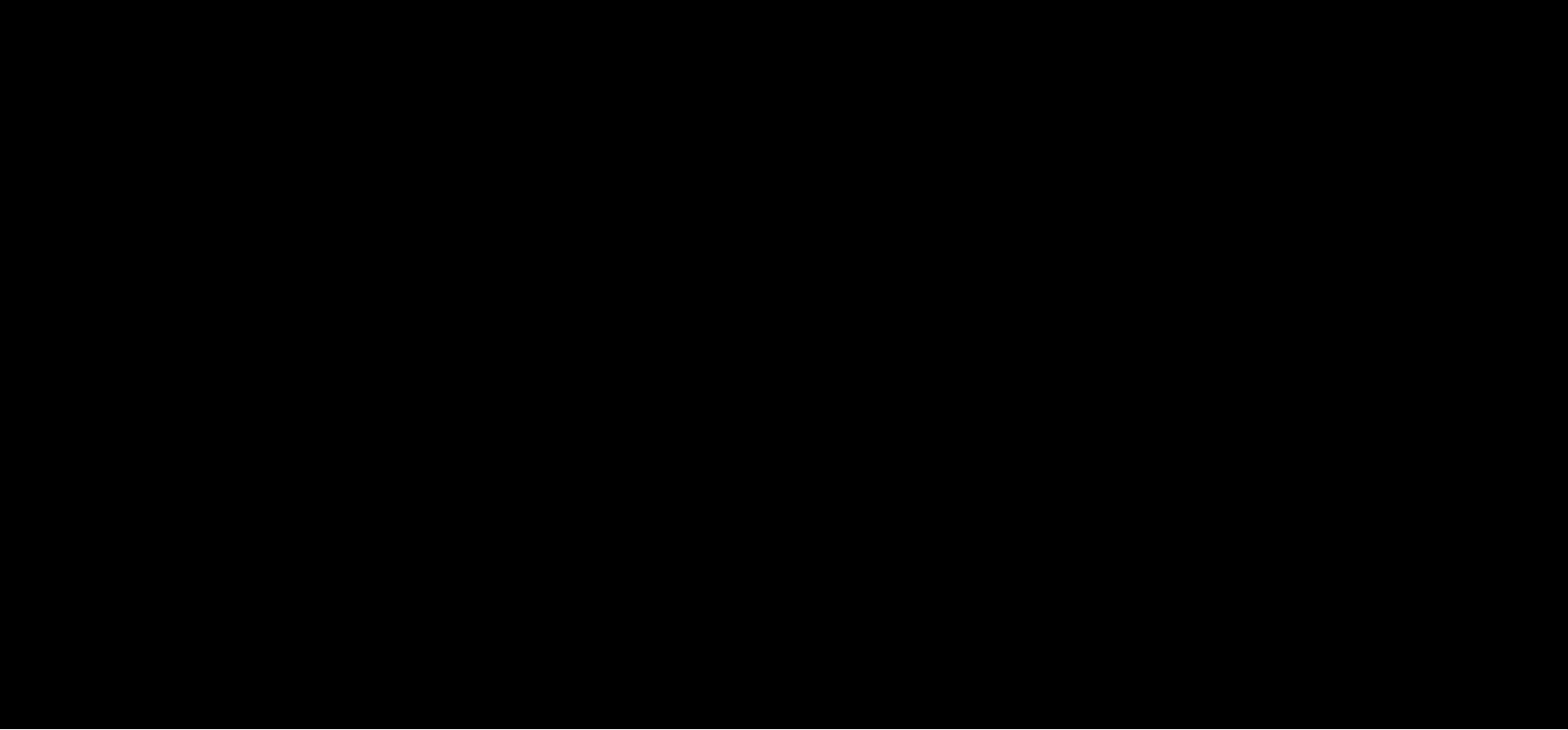
Breakout Hits

App Lifecycles

PX-2176.112

App Lifecycles

App Lifecycles

Identify and Amplify Breakout Hits

Redacted

Identify and Amplify Breakout Hits

Redacted
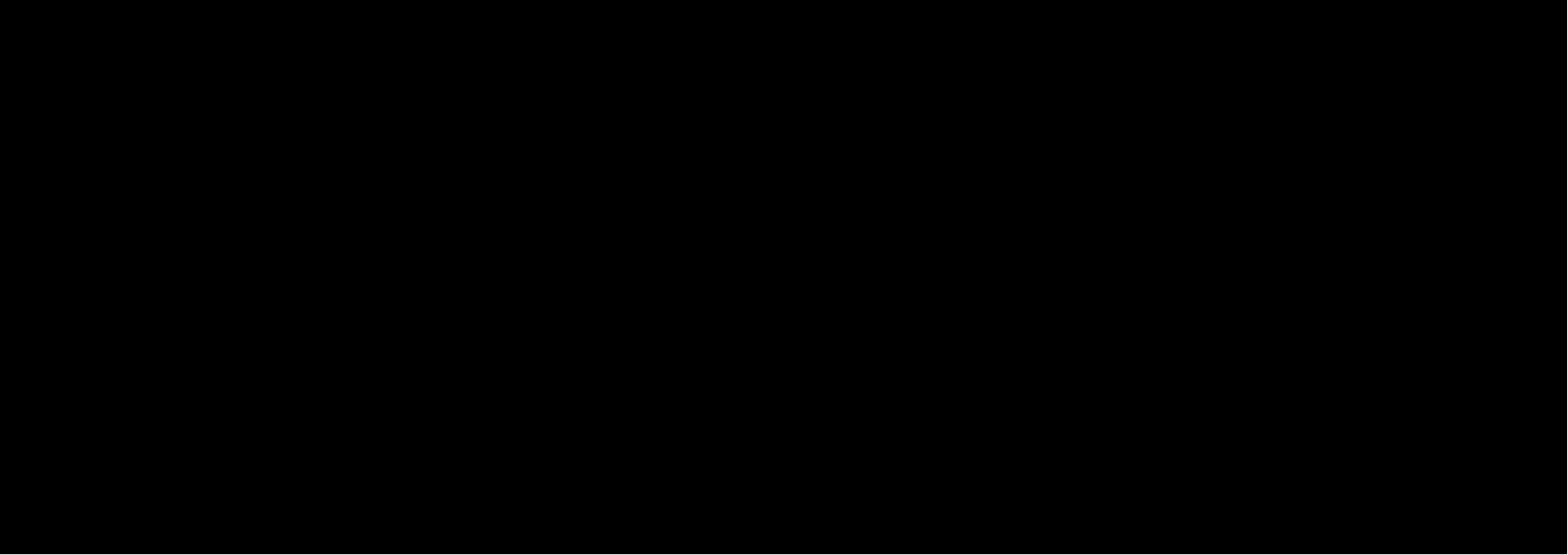
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Redacted

International Analytics

PX-2176.118

Support from App Store

PX-2176.119

Redacted

PX-2176.120

Multiplayer Online Battle Arena (MOBA)

A match between two teams

Control a single character (hero)

With AI team mates

Destroy the opposing team's base

Level-up during the course of game

Typical map of a MOBA game

- Teamwork and cooperation
- Choosing from dozens of heroes that have different and unique abilities
- Killing units and heroes to gain points to level up and golds to buy gears to strengthen its abilities
- With the assistance of AI units, which are marching along the three lanes
- Final objective is to destroy enemy's base structure

PX-2176.121

Redacted

PX-2176.122

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

PX-2176.123

Growth

Apple Games Subscription Service

Customer Engagement

International Expansion

Commerce

Breakout Hits

Enhanced Analytics

A lot of the initiatives we have covered today rely on data and analytics to succeed, so we want to quickly share how we plan to enhance our capabilities in those areas to support these initiatives ... and more.

PX-2176.124

Enhanced Analytics

PX-2176.125

Enhanced Analytics

PX-2176.126

Enhanced Analytics: FY'17 App Store Redesign Pilot
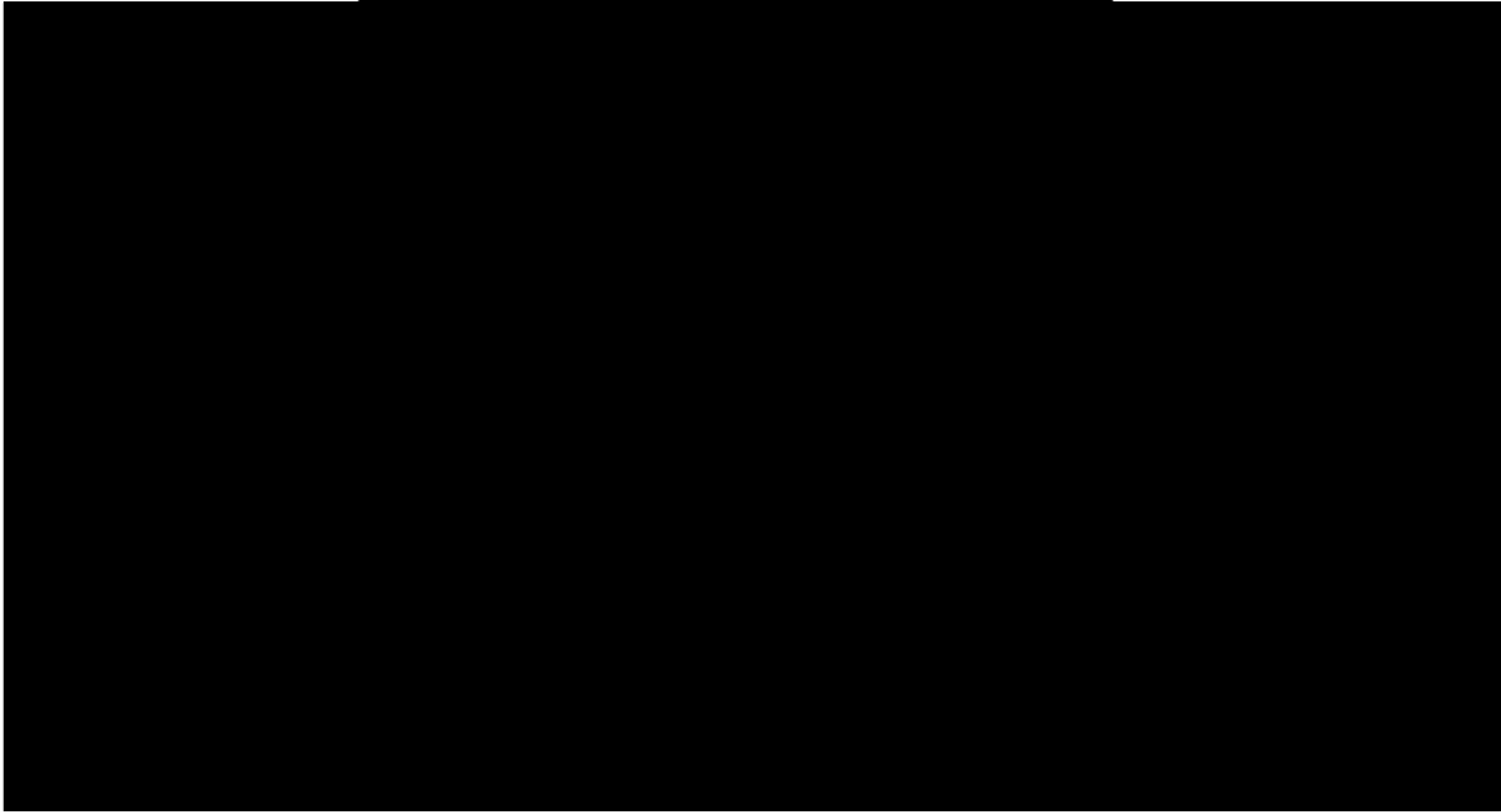
We've already started down this path through a pilot project that goes live with the redesign in September

PX-2176.127

Enhanced Analytics: FY'18 Deliverables

Enhanced Analytics: FY'19 Plans

176.129

FY'18 Focus Areas

Discovery

Growth

Developers

[Handoff to Ann]

FY'18 Focus Areas

Discovery

Growth

Developers

–App Store's success depends on the success of its developers

<CLICK>

Developer Focus Areas

Product Page A/B testing

App Store Connect

Developer API

-Doing a lot for developers next year, 3 things that stand out

Redacted

-Improve overall developer experience on our platform with App Store Connect & Developer API

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Product Page A/B Testing
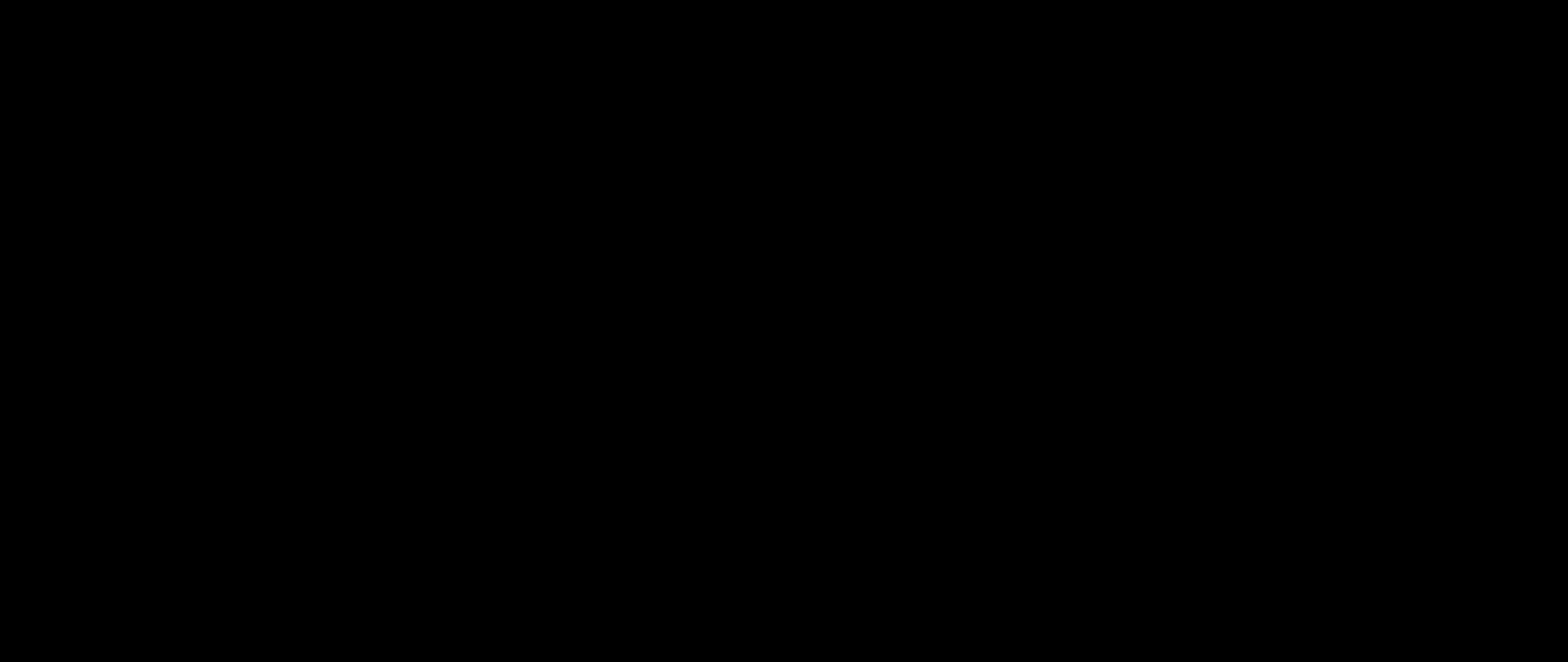
iTunes Connect Today - Mobile & Web
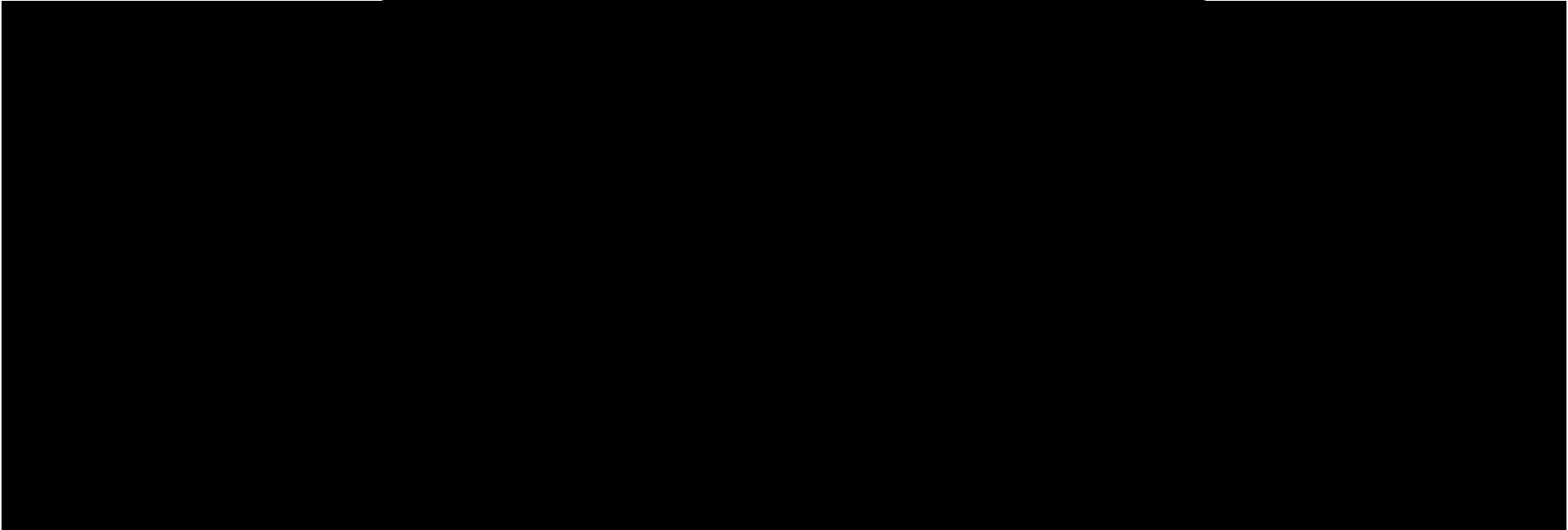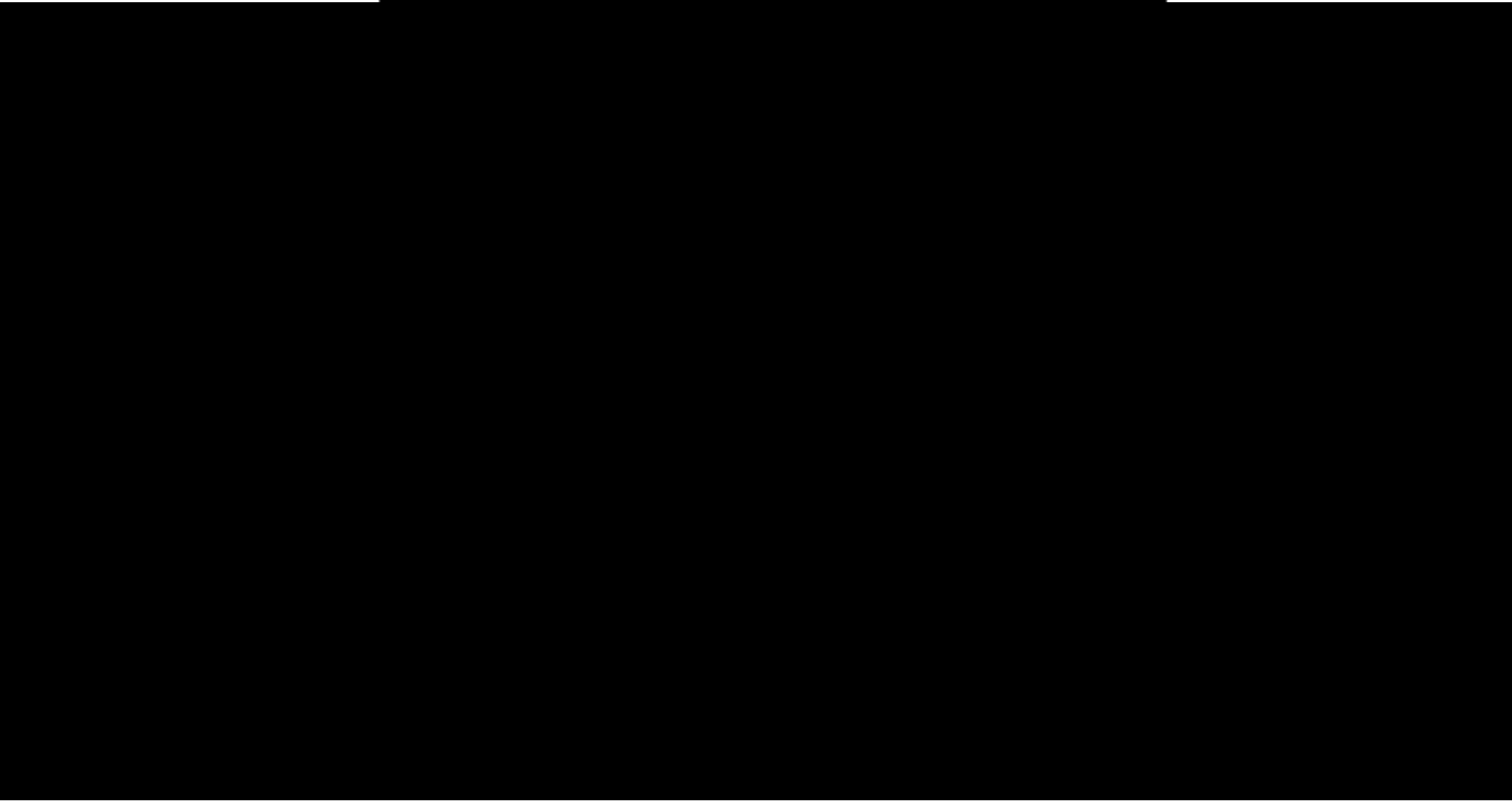
App Store Connect

PX-2176.135

Developer API
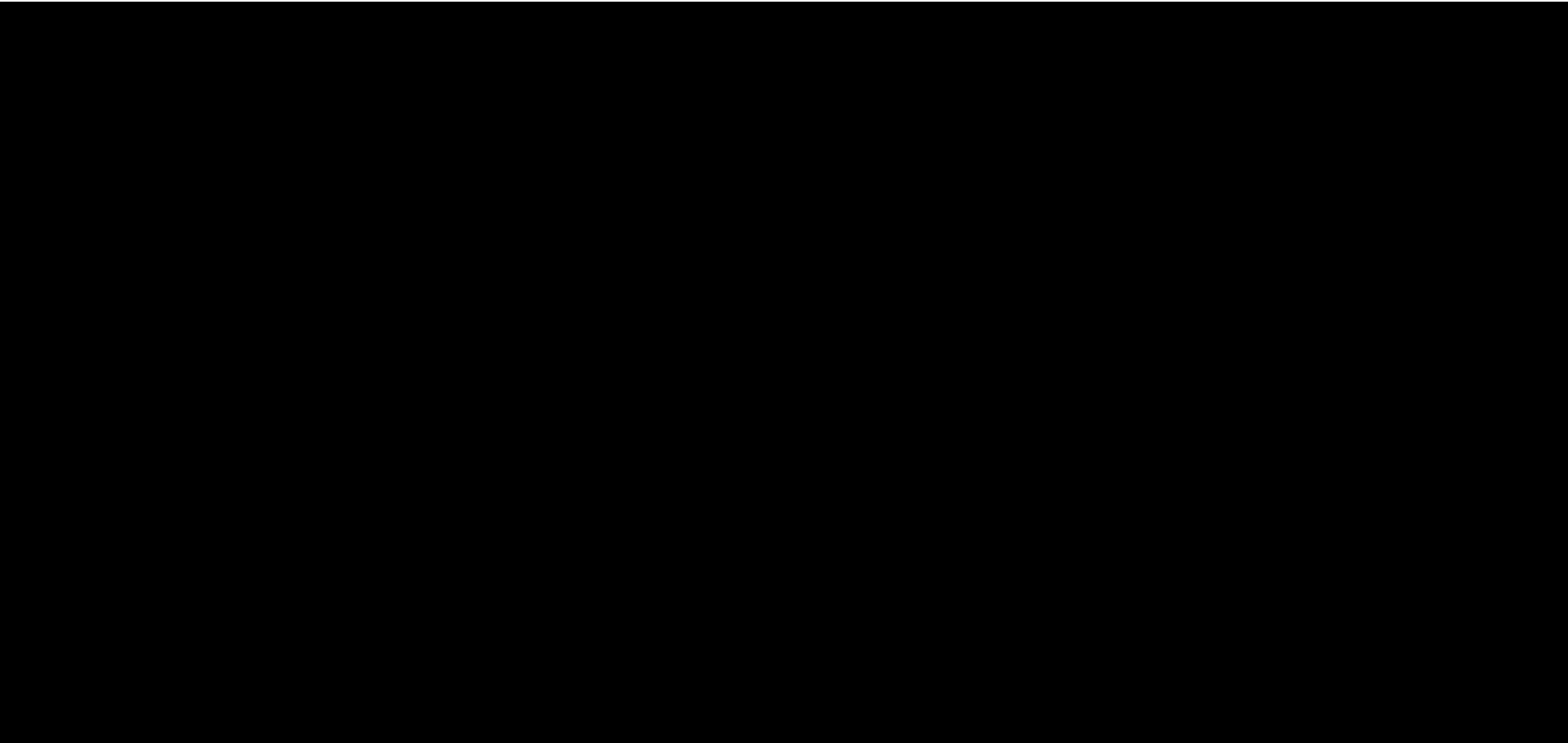
Developer Experience

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FY'18 Focus Areas

Discovery

Growth

Developers

PX-2176.139

Finance

<CLICK>

App Store Gross Billings (Normalized)

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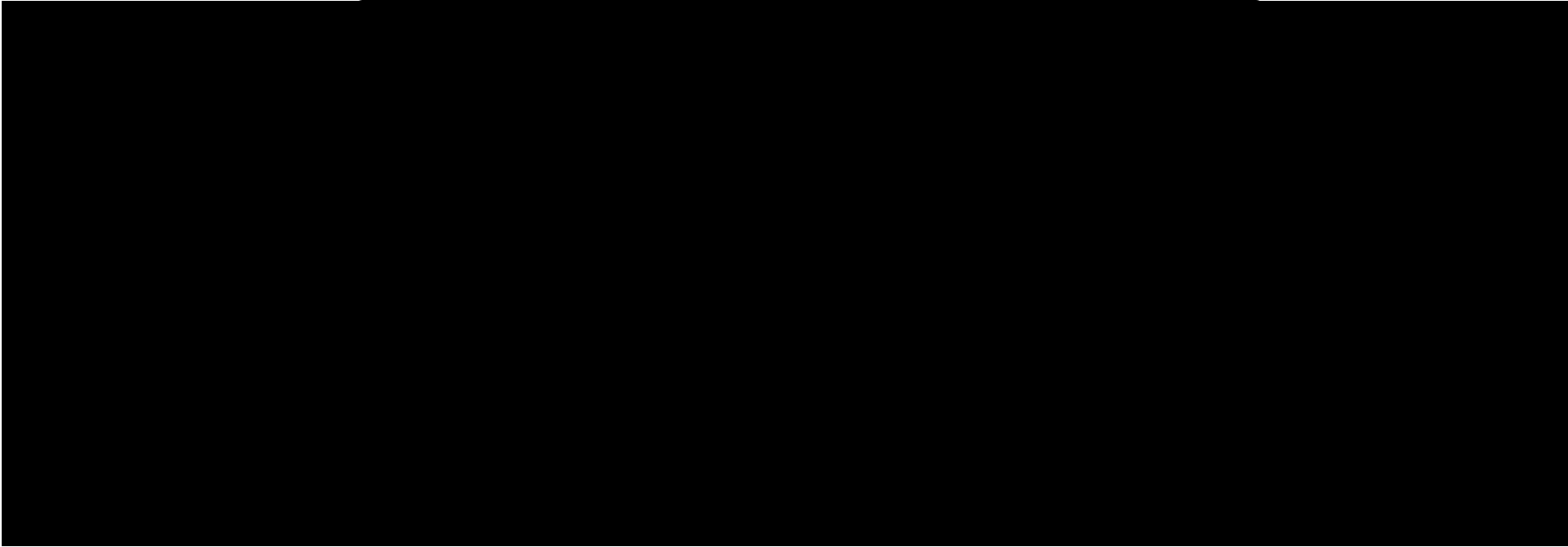
App Store Gross Revenue (Normalized)
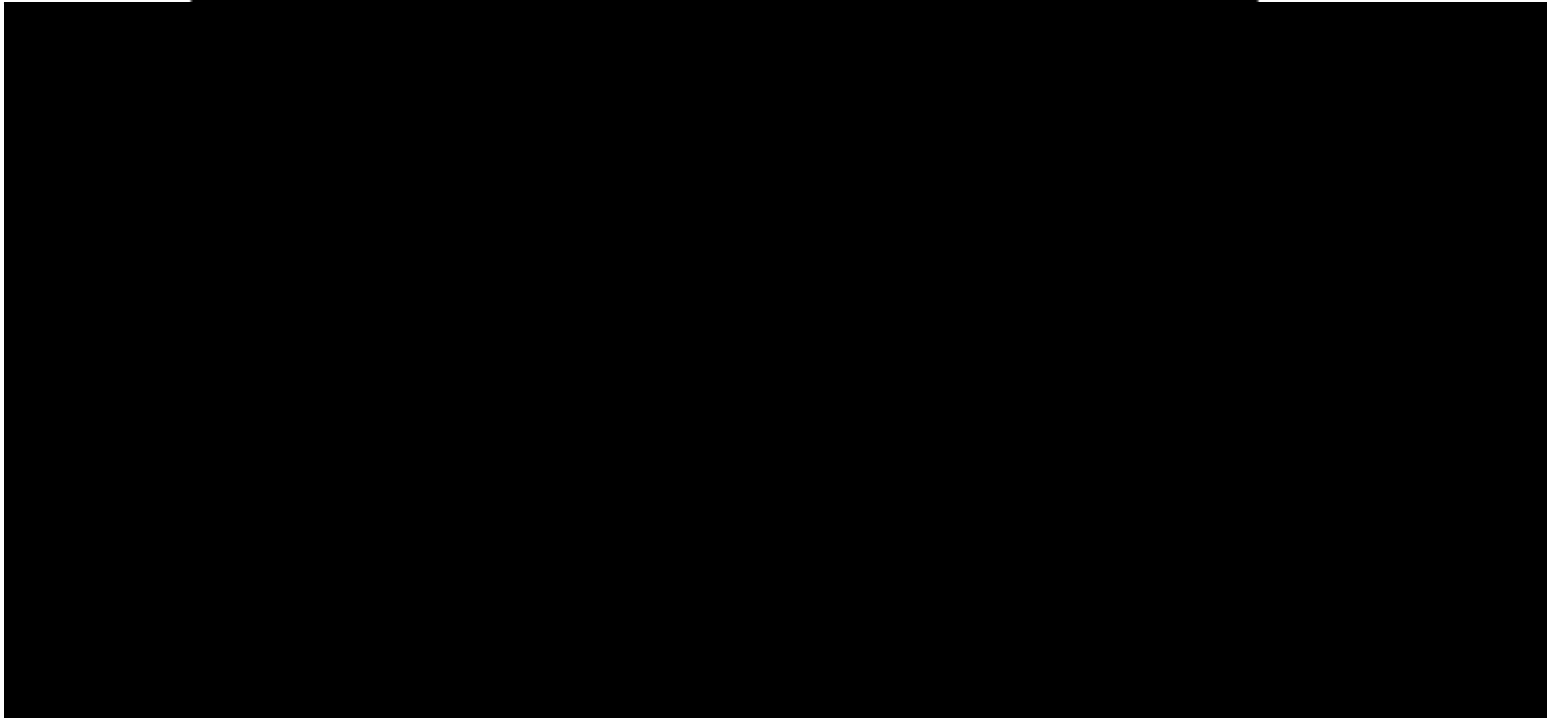
App Store YoY (Normalized)

PX-2176.143

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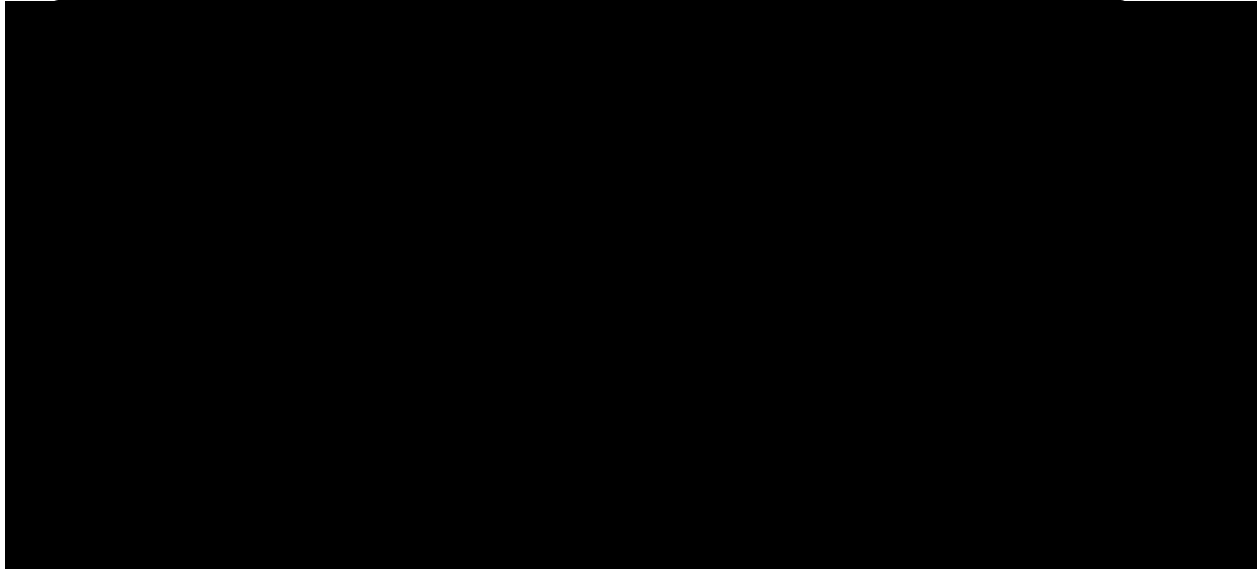
App Store Gross Billings

Headcount Ask

Headcount Ask Cost

PX-2176.146

CAPEX Ask

Headcount detail

Headcount detail

Headcount detail - Including Infrastructure
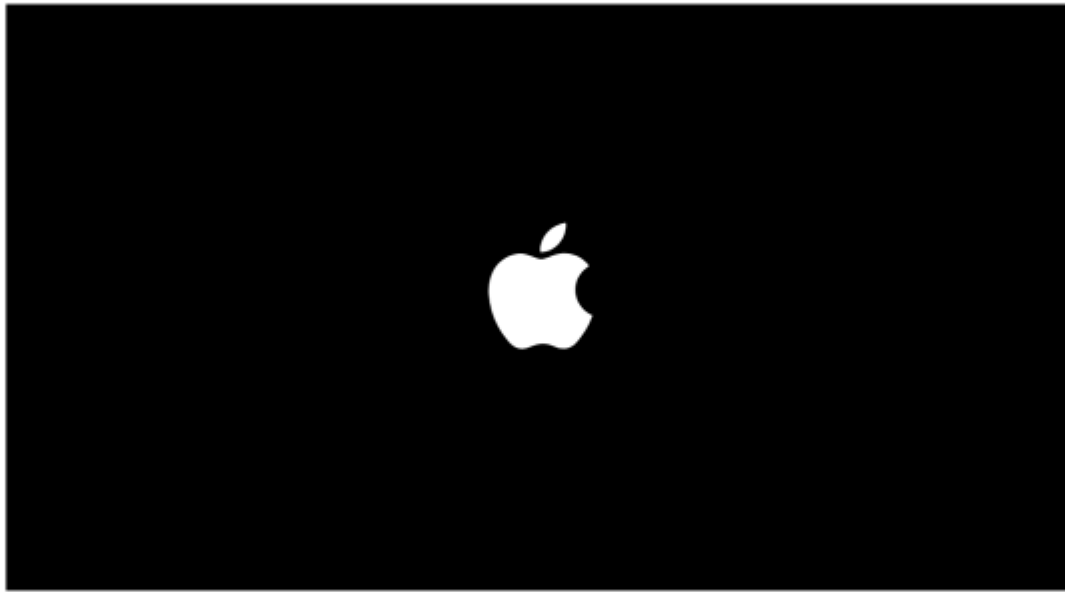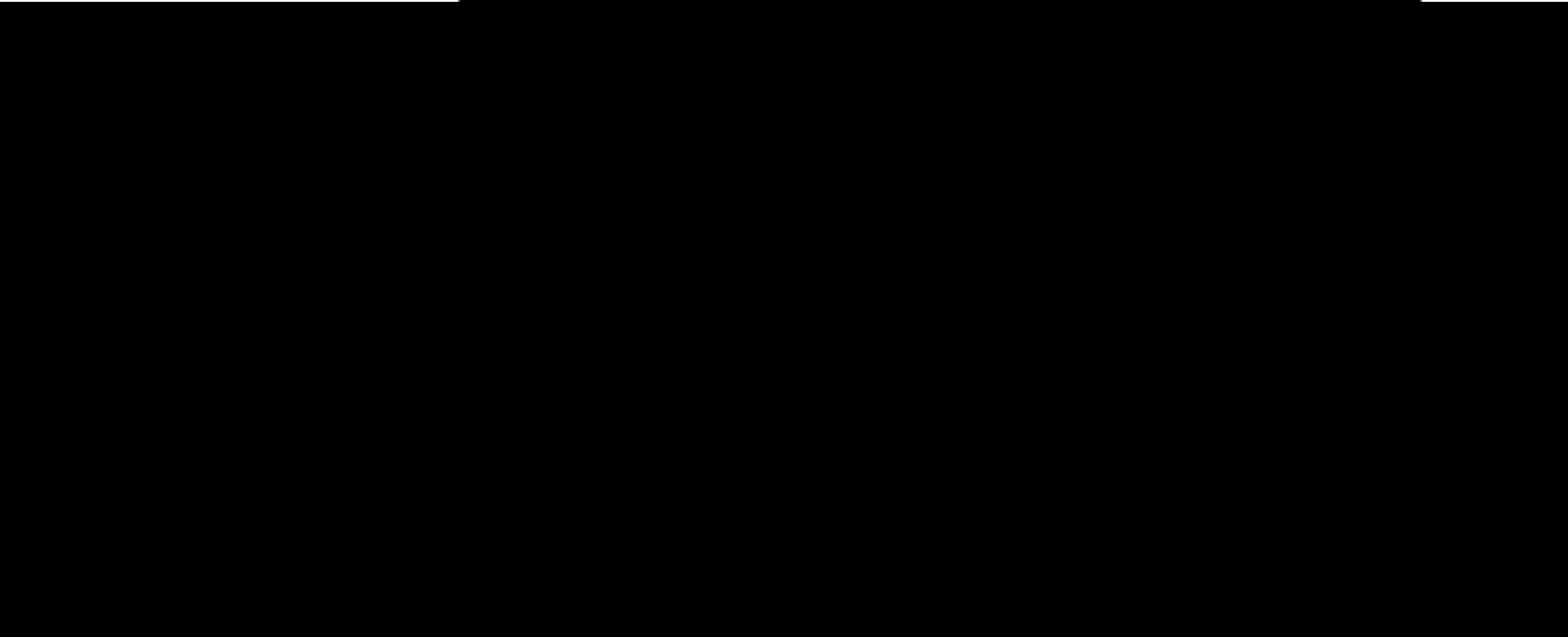
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Business Update
Appendix
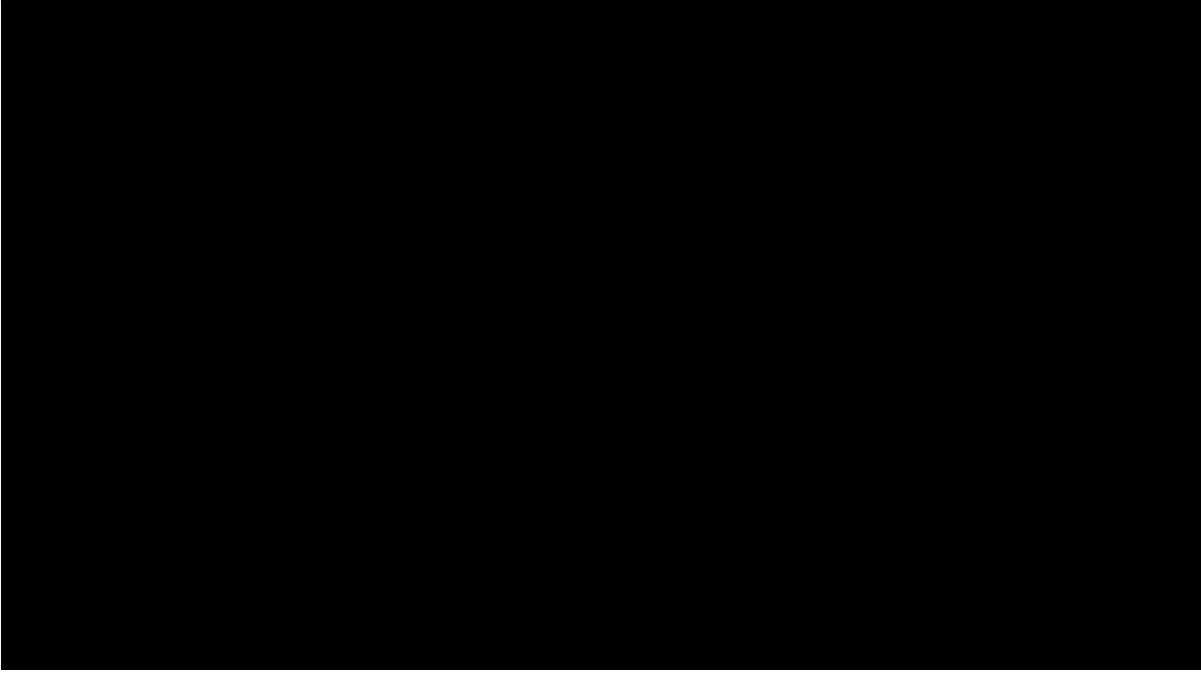
PX-2176.152

Paying Accounts By Quarter, Excl. Greater China

PX-2176.153

APL-APPSTORE_09086334

Paying Accounts By Quarter
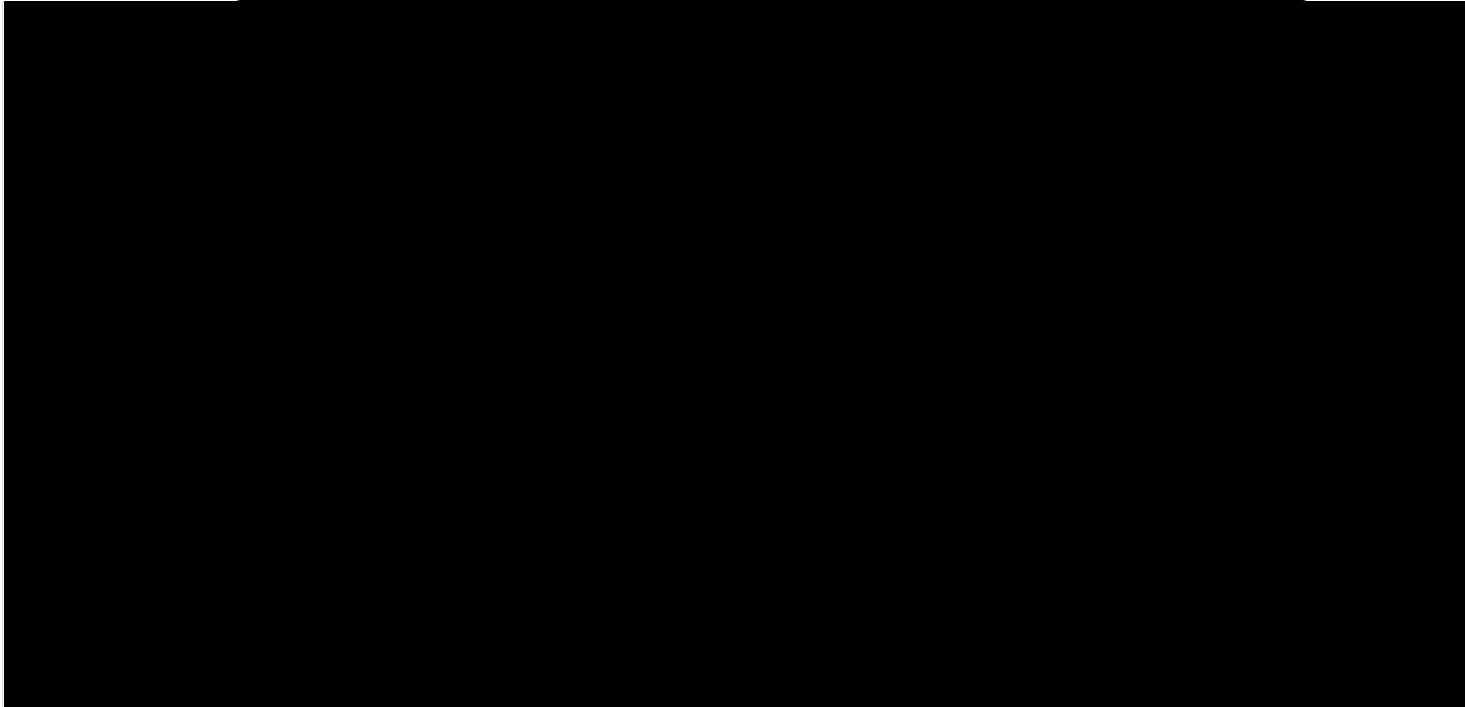
Paying Accounts By Quarter

New to Paying Accounts

PX-2176.156

New to Paying Accounts
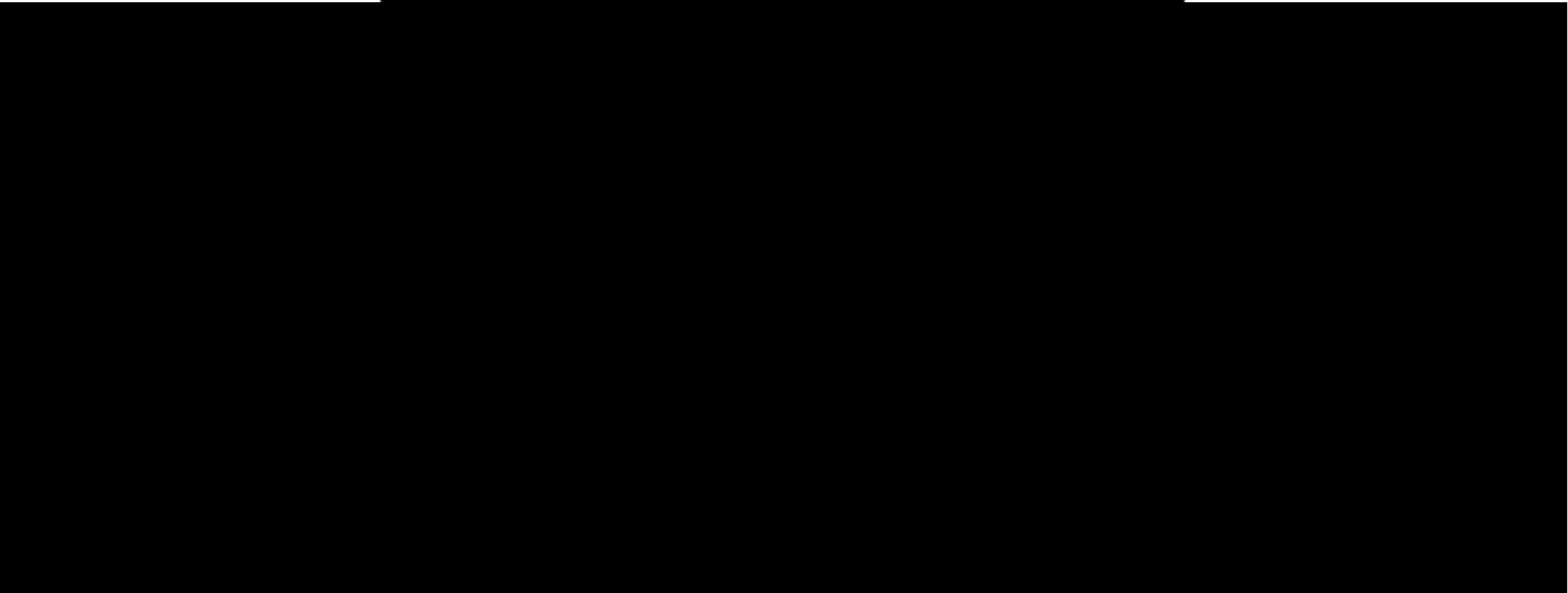
New to Paying Accounts via Alipay
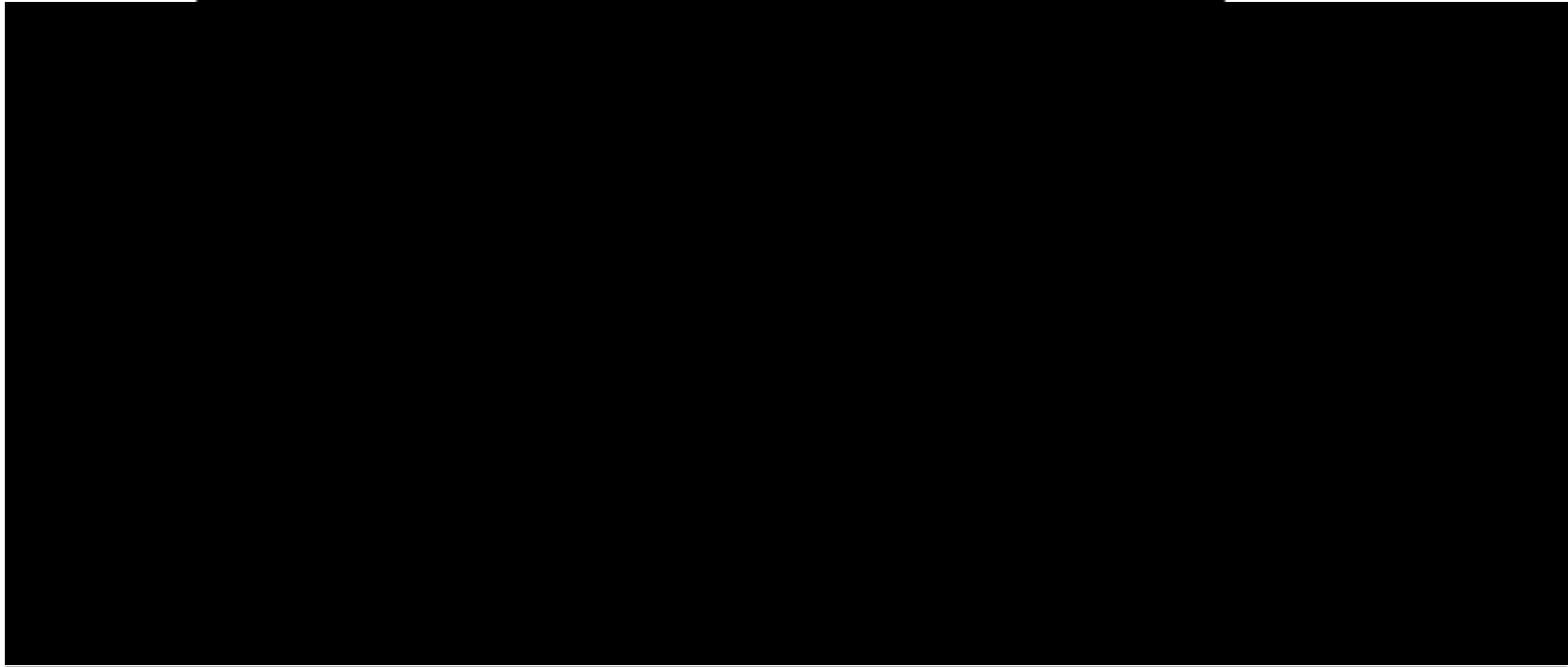
New Payment Method Share of New-to-Paying FYQ3 '17

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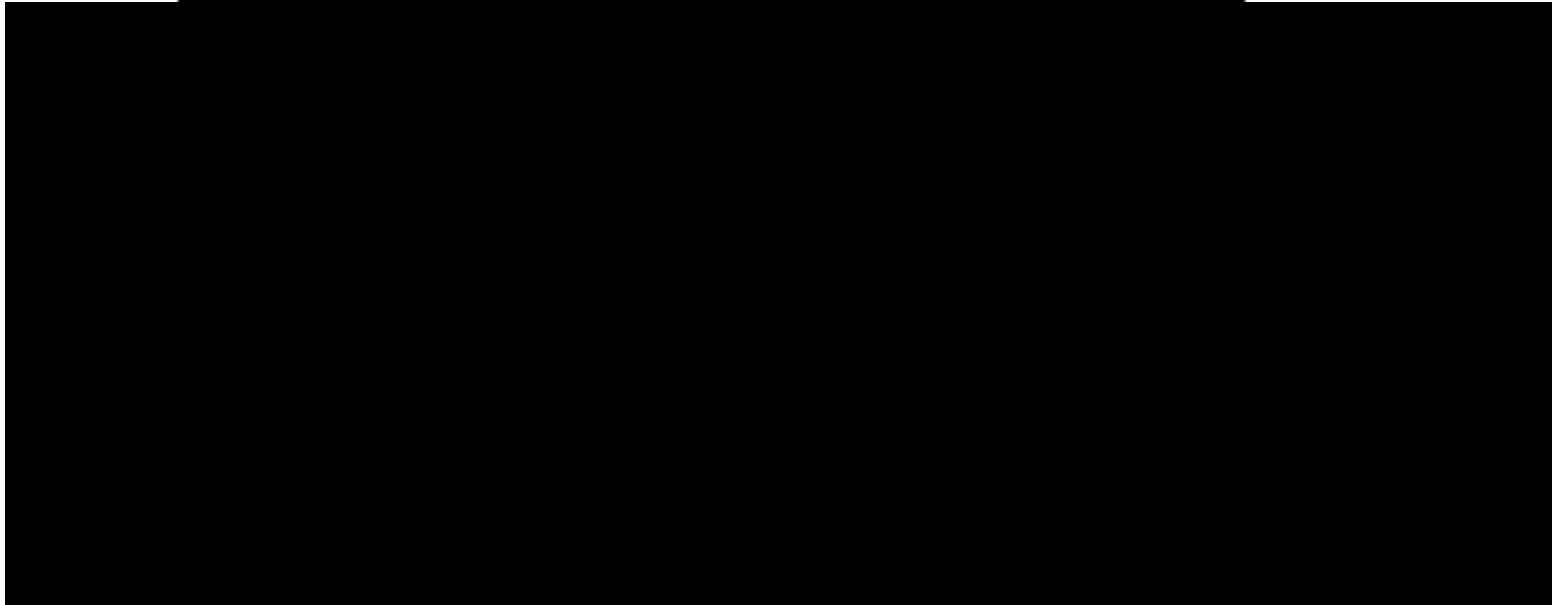
China New to Paying Accounts
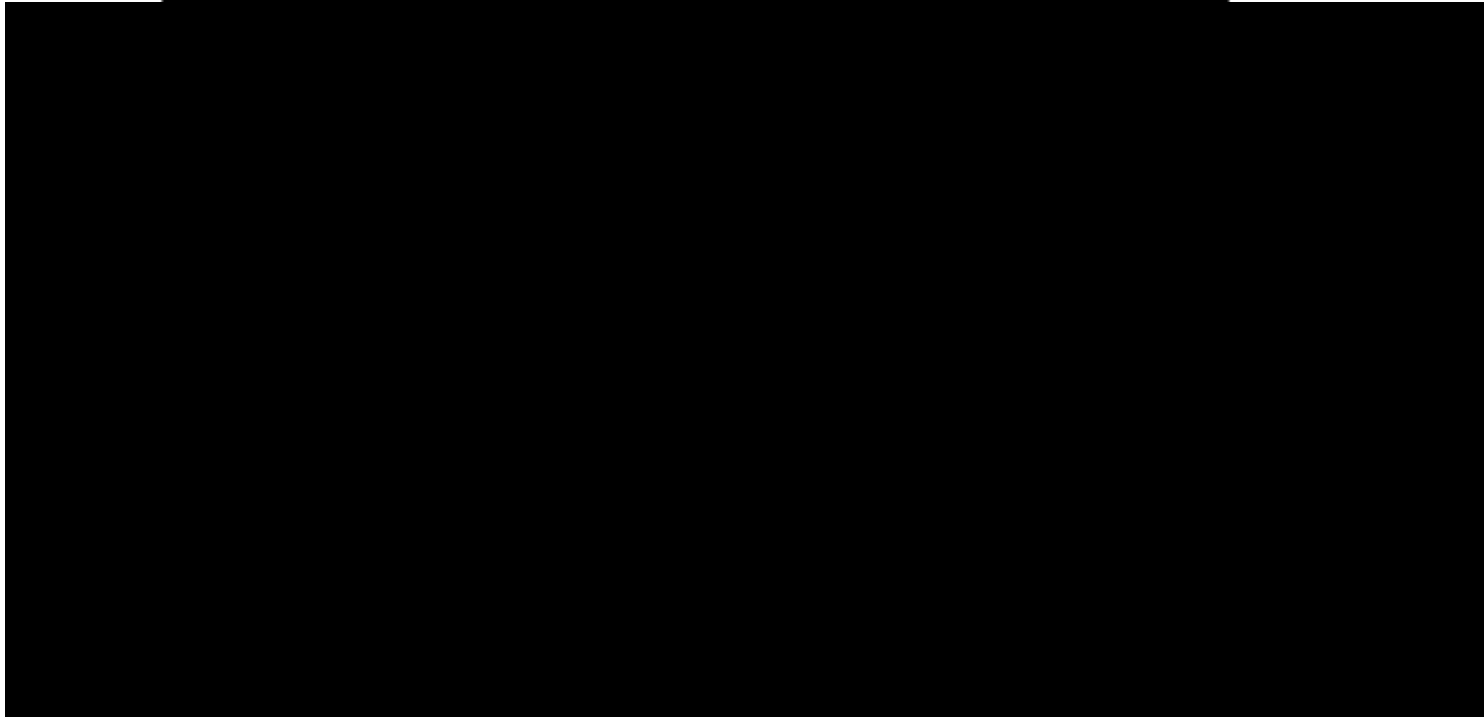
Cross-Border Store Credit Billings Trend

Subscriptions

Subscriptions Billings excl. Spotify

Billings per Paying Account

PX-2176.164

Billings per Paying Account by Type

PX-2176.165

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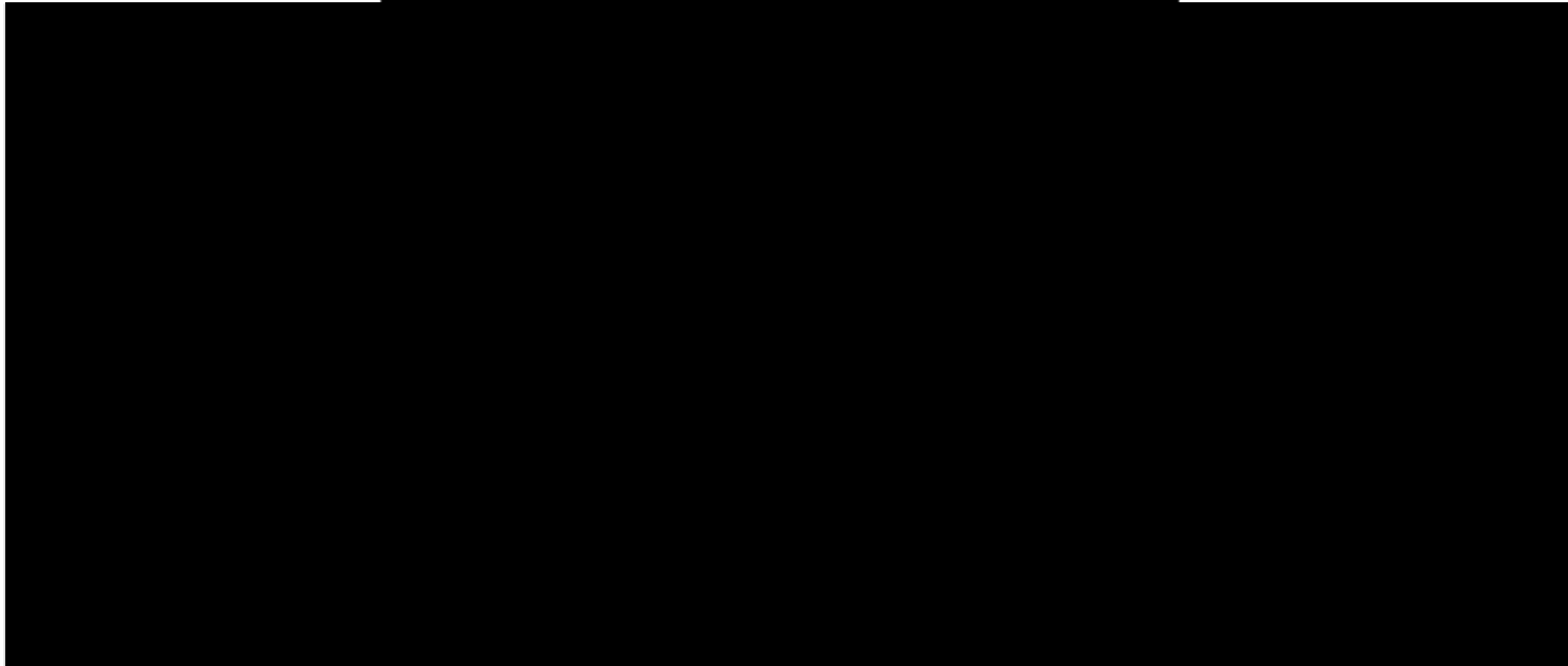
Paying Accounts Growth By Spend Segment

PX-2176.166

Billings per Paying Account

PX-2176.167

APL-APPSTORE_09086348

Top Downloaded Apps Past 4 Quarters

Top 3rd Party Apps by % of Devices, iPhone
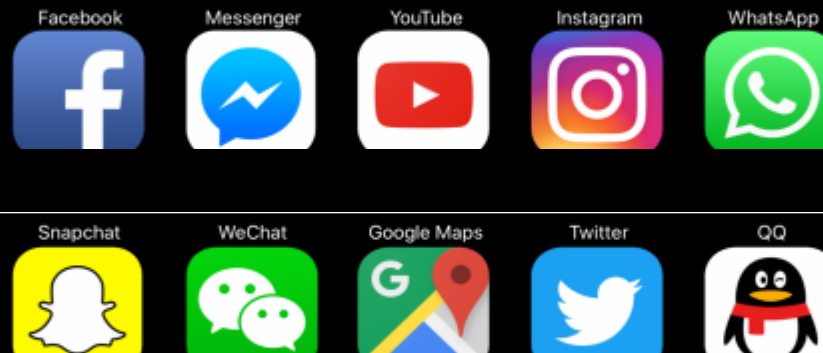
- % of weekly devices
- Median Foreground Time Spent per Device (Minutes per Day)

Top Grossing Developers FYQ3 '17

Top Grossing Apps - Q3 '17

Trend	Last 24 Months
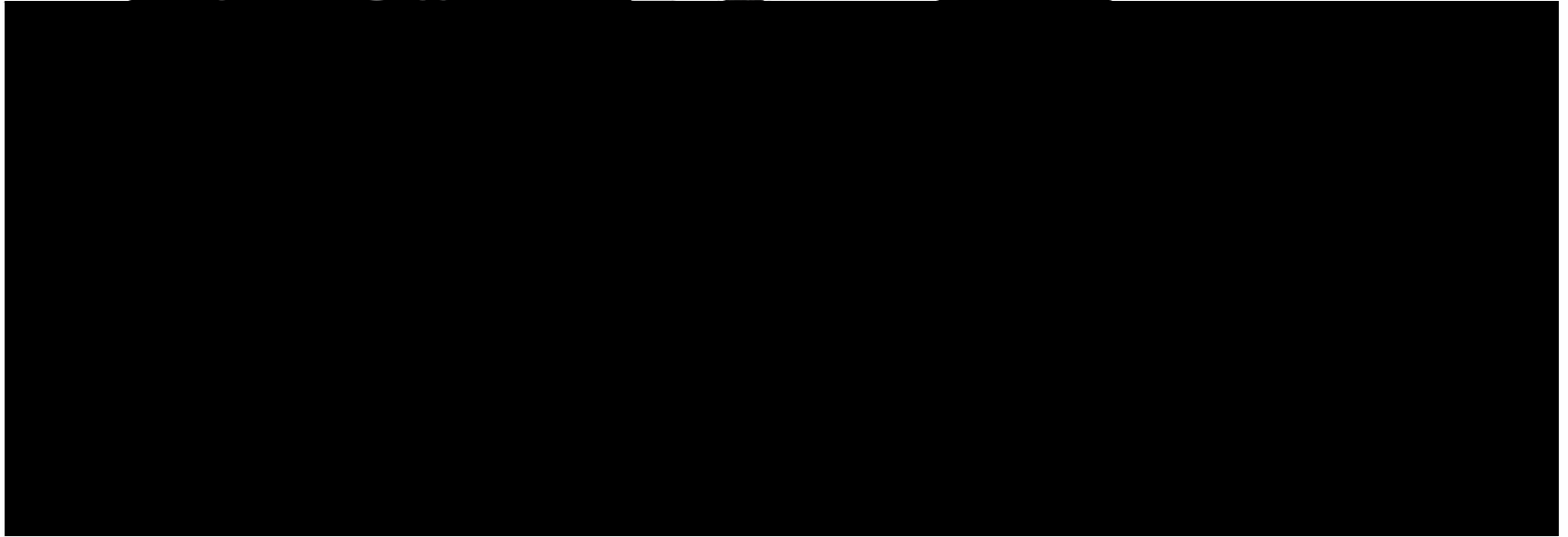
Top Grossing Apps FYQ3 '17

King of Glory	Monster Strike	Fantasy Westward	Fate/Grand Order	Clash Royale

Candy Crush	Puzzle & Dragons	Netflix	Onmyoji	Dragon Valley

PX-2176.172

Top Grossing Non-Games FYQ3 '17

Netflix	Tinder	HBO NOW	Spotify	Pandora

Momo	iQIYI	Hulu	LINE	Tencent Video

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Games Subscription Service
Appendix

PX-2176.174

Relationship to Existing
Games Business

Before we go any further, let's take a look at the relationship of our proposed service to our existing games business, which we know is important to Apple.

PX-2176.175

APL-APPSTORE_09086356

Game spend is highly concentrated

- This brings us to the meat of the discussion, which is our analysis of cannibalization.
- Of the 481M games customers that spent on the store last year, 6% generated more than 88% of the total App Store billings. This means the average user in this 6% spent over $750 a year on games.
- (On the other hand, the remaining 111M spending customers spent an average of $23 a year on games, showcasing the massive opportunity for a subscription offering that would generate over $70 per subscriber each year.)
- When considering the risk of cannibalization, we need to primarily consider how this service would impact the engagement and spend of this 6%.

Spend Segment ARPPU
- High:
- Med–High
- Med:
- Med–Low:
- Low:

Note: 481M games transacting customers is based on the 2015 number because the 2016 contains significant fraud issues.

PX-2176.176

These 6% seek three experiences

1. Deep, continuously expanding gameplay

2. Building community

3. Accumulating and protecting elite status

"Why do players buy in-game content? An empirical study on concrete purchase motivations." Computers in Human Behavior 68 (2017)
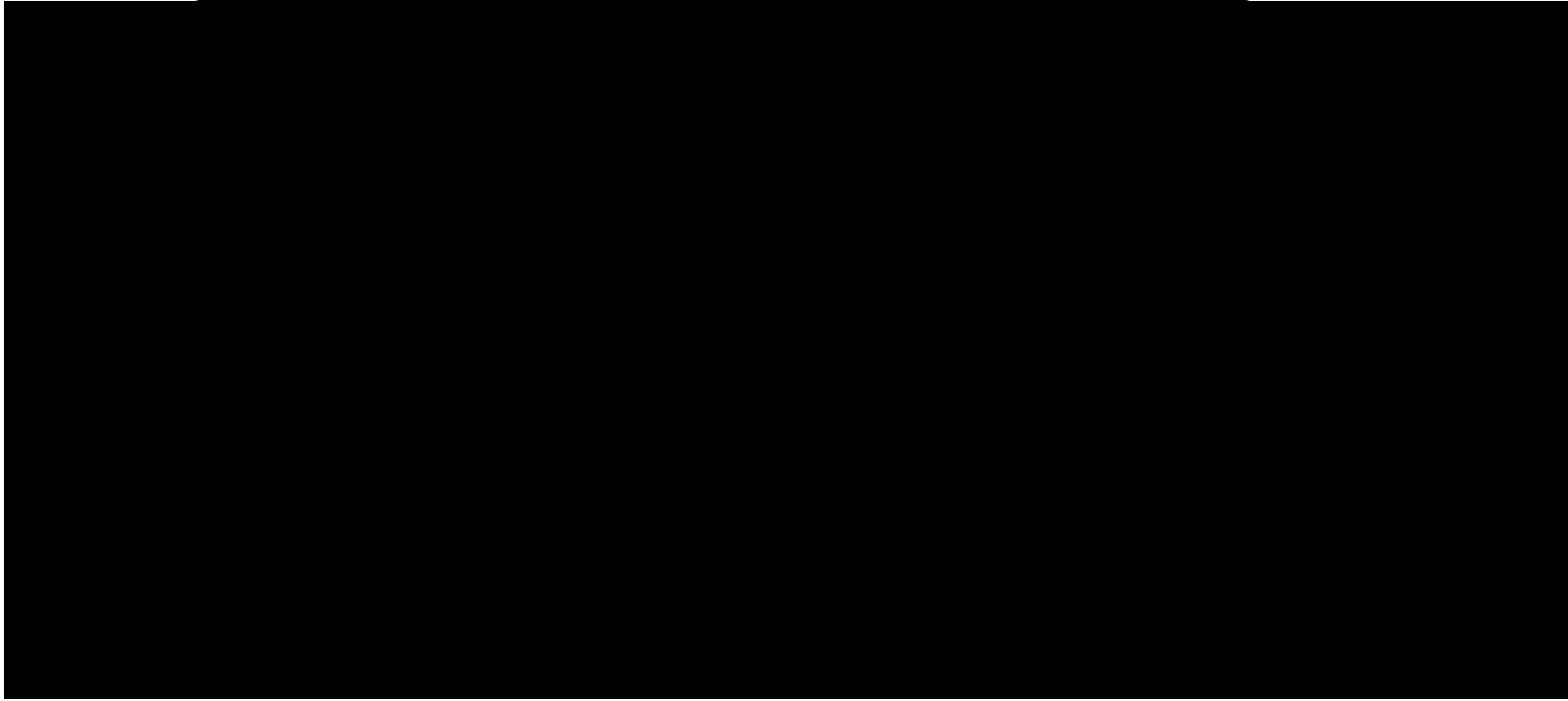
- Freemium games offer the ideal playing experience for this small segment of high spending customers.
- Freemium games offer these players deep and continuously expanding gameplay and allowing these users to spend years playing in the same game without losing interest. Freemium developers also leverage limited time events, like tournaments, to inspire competition and encourage players to stay heavily engaged.
- Freemium games allow users to establish anonymous personas (or avatars) within the game and build deep in-game communities through these personas. Within most freemium games, community integration and support is essential to competing at the highest levels and this sense of community is a major factor in the high engagement and spend of the 6%.
- Freemium games also allow users to accumulate status within the community and game over the course of many years. Accumulating status in these games is a complex and time-intensive process, but that status can provide access to exclusive areas and communities, making it highly valued by the 6%. However, status is usually difficult to maintain in live service games, so elite players will readily spend to protect their status.

PX-2176.177

Subscription won't satisfy the 6%

Spend motivations	Features	Freemium	Subscription
Deep, continuously expanding gameplay	Rich world with endless gameplay	✓	✗
	Limited time/special events	✓	✗
	In-game persona/avatar	✓	✗
Building community	Gifting and community support	✓	✗
	High value of cooperation	✓	✗
	Anonymous multiplayer	✓	✗
Accumulating and protecting elite status	Difficult to maintain status	✓	✗

- Here is a list of features which are essential to the high spender experience in freemium games that will not be available in the games subscription service.
- Freemium games provide never-ending gameplay for users, allowing for deep and limitless play. All the games in the subscription service would all be winnable or time-limited, meaning that users beat them and move on to the next title.
- Freemium games use limited time events and offers to re-engage high value customers and encourage them to spend more. The games in the service wouldn't be able to offer in-app events or offers, allowing customers to play at their leisure.
- Freemium games allow users to create anonymous in-game personas/avatars and build deep communities with other anonymous players in the game. The subscription service wouldn't allow for in-game personas or anonymous multiplayer – players would leverage their real social graph via iMessage for social sharing, but the gameplay itself would be largely single player.
- Likewise, freemium games place a high value cooperation, gifting and support for members of the in-game communities. The games in the service would be largely single player, and any available multiplayer support would be focused on competition rather than cooperation and support.
- Freemium games make it difficult to maintain status within a game. The games in our service would focus on tangible in-game achievements – such as tasks completed and levels won – and these achievements wouldn't disappear or lose value over time.

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We will ensure differentiation

Premium games do not cannibalize freemium

Freemium developers agree

"[Hatch] is aimed solely at premium games with no IAPs, i.e., mainly games with gameplay types and genres that are not as well suited to free-to-play. So it's positioned more as an alternative discovery platform and source of income for (indie) premium game developers. As such, we don't see it having a big impact on our own business."
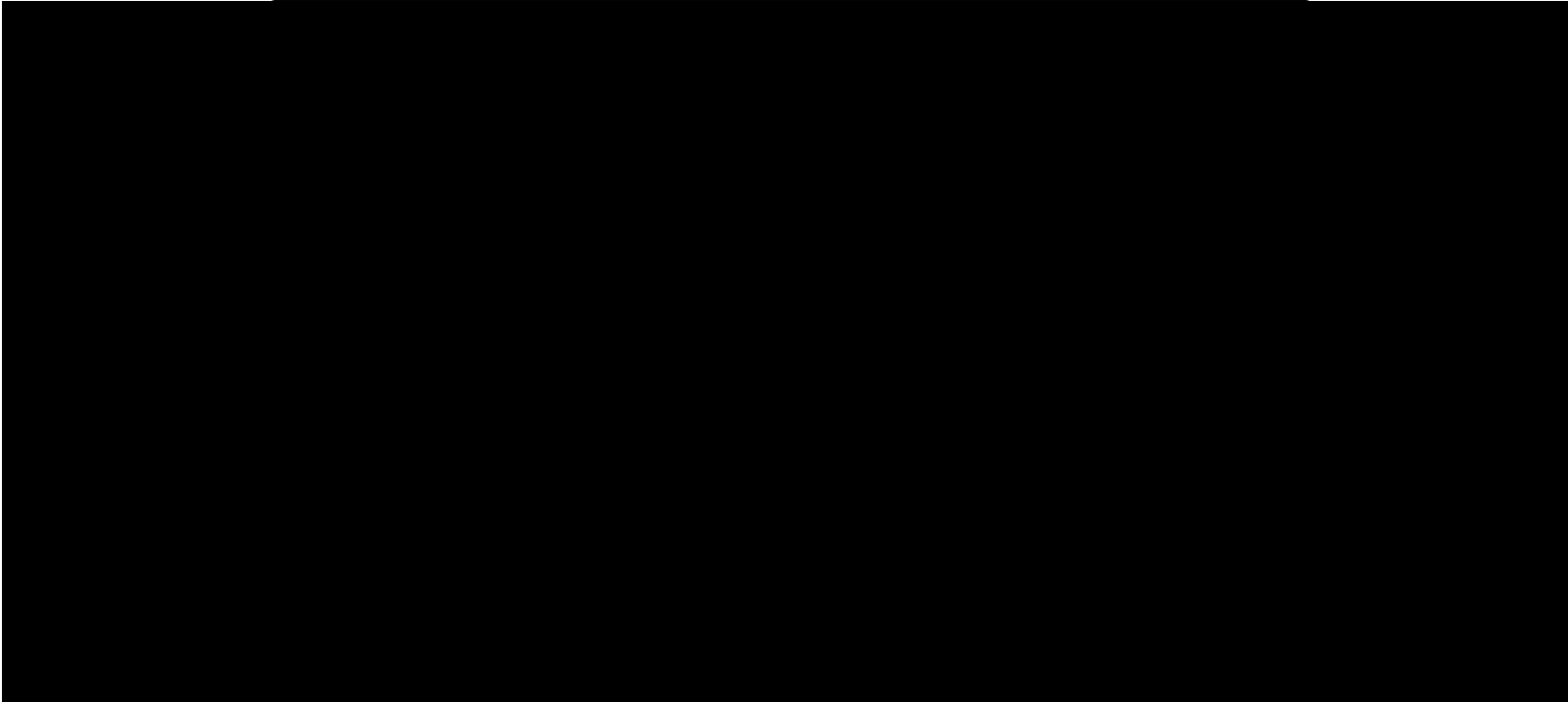
Ilkka Paananen, CEO, Supercell

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Financial Projections
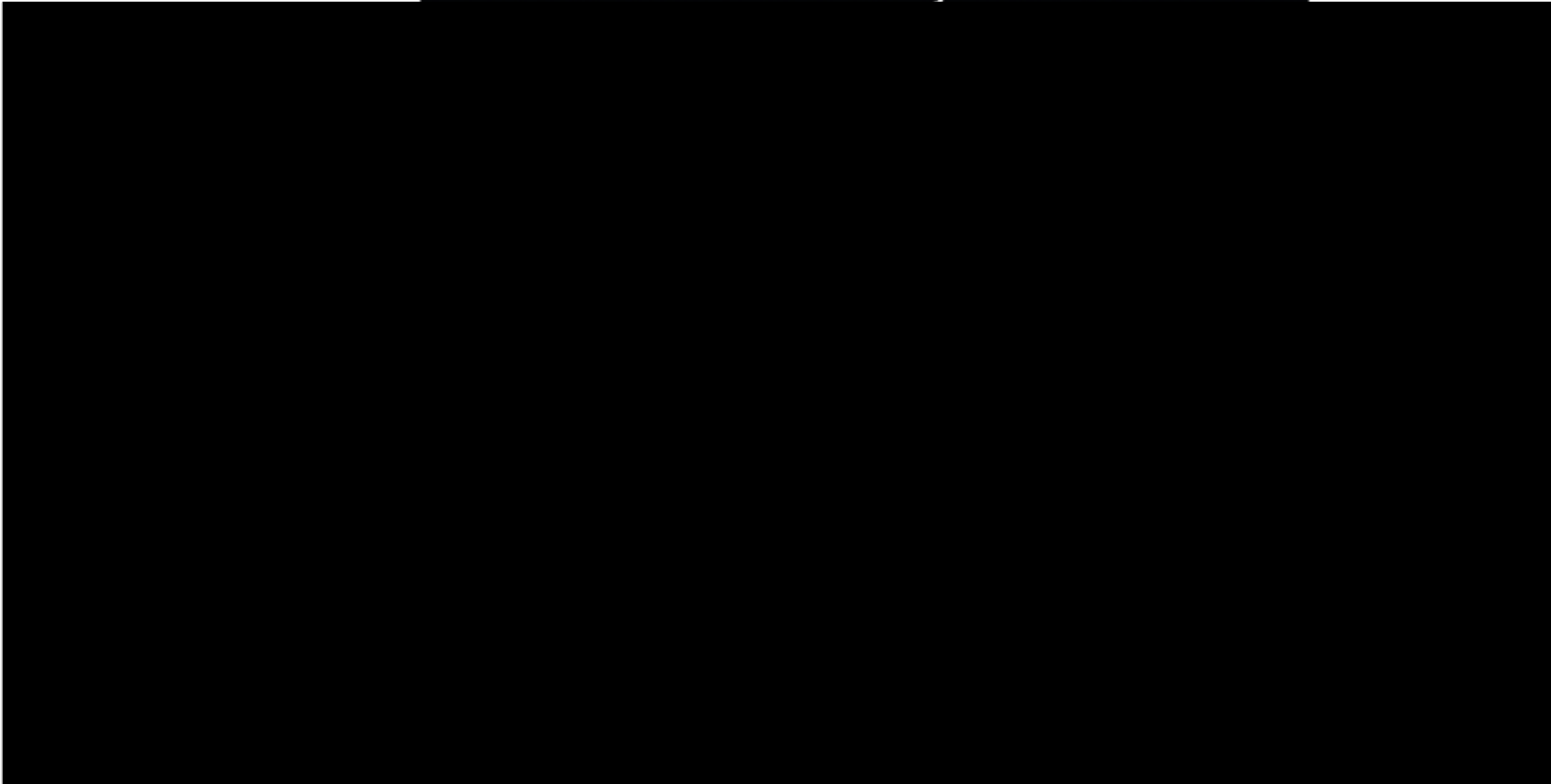
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Subscription assumptions

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Content Costs
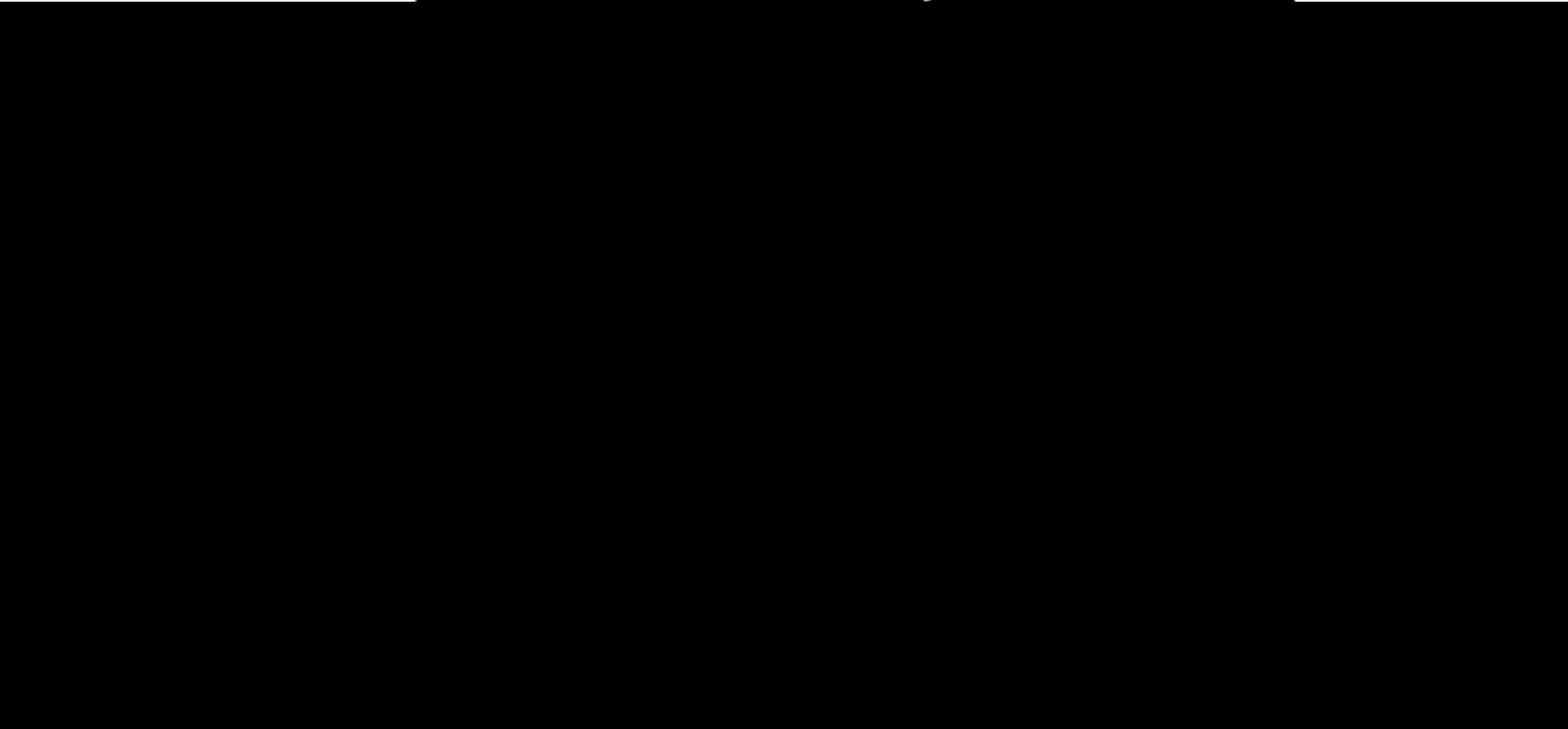
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Financial Projection
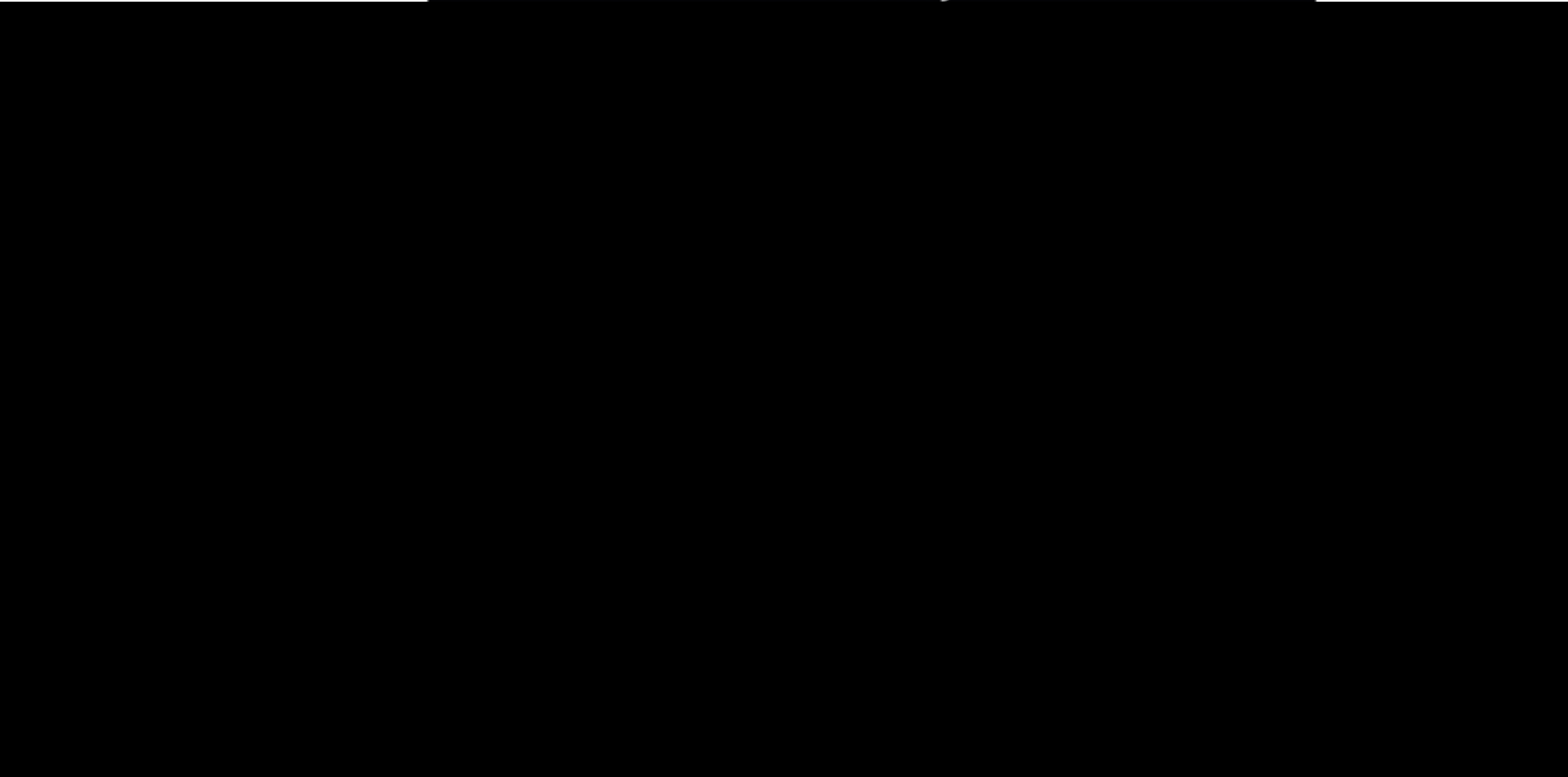
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Financial Projection

Financial Projection

Financial Projection

PX-2176.190

Headcount to launch
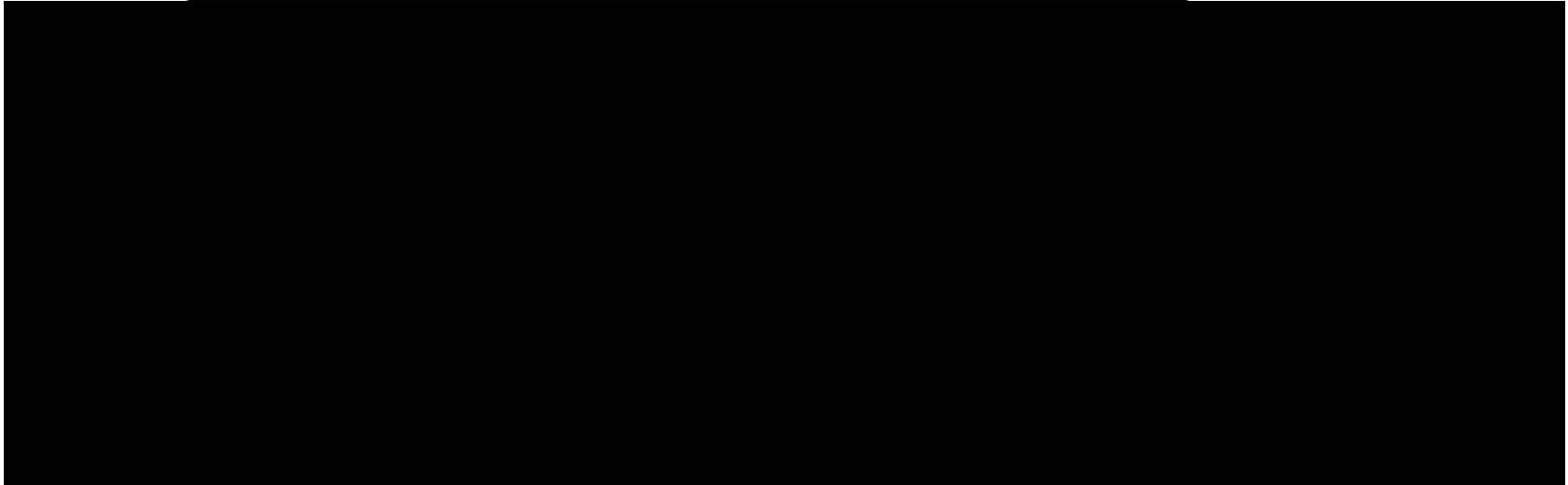
Summary

Great experience for 280 million iOS gamers

Sustainable model for premium developers

Supports iPhone, iPad, AR/VR, etc.

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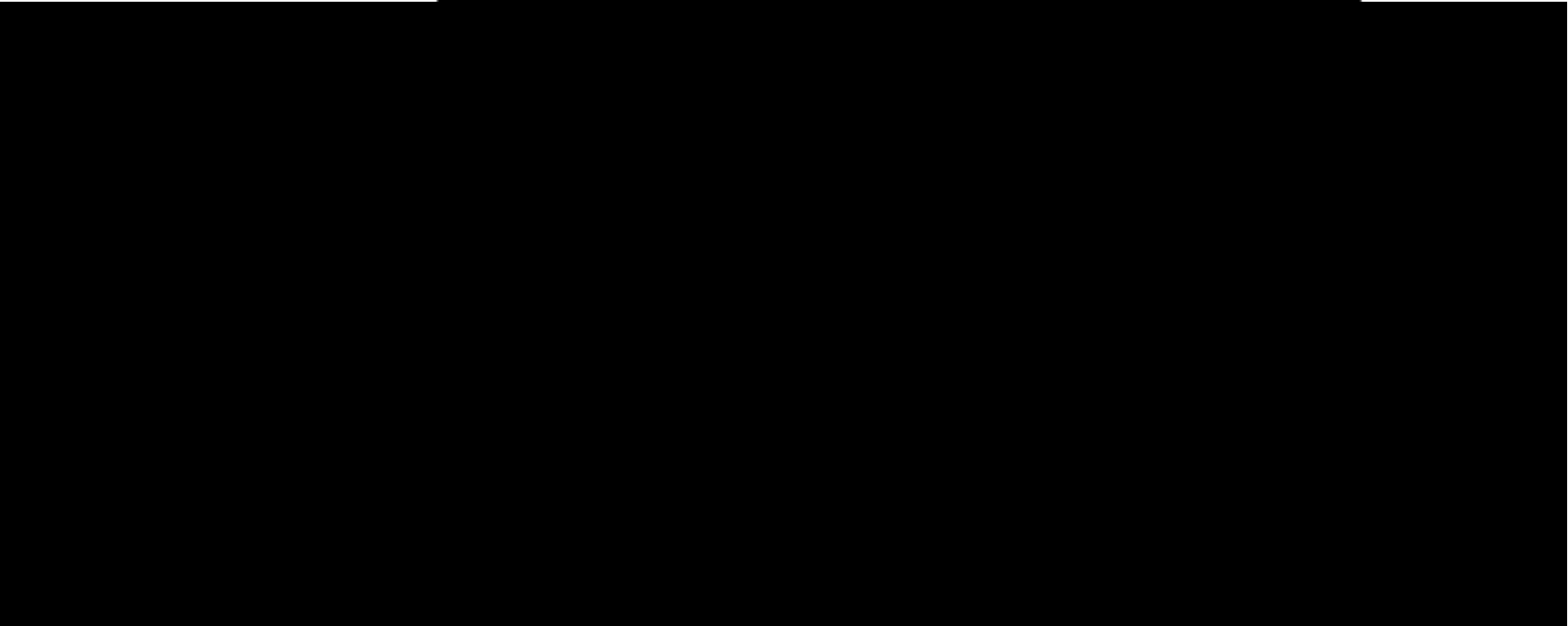
Personalization Impact
Appendix

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APL-APPSTORE_09086374

Observed Values
Featured Games & Apps
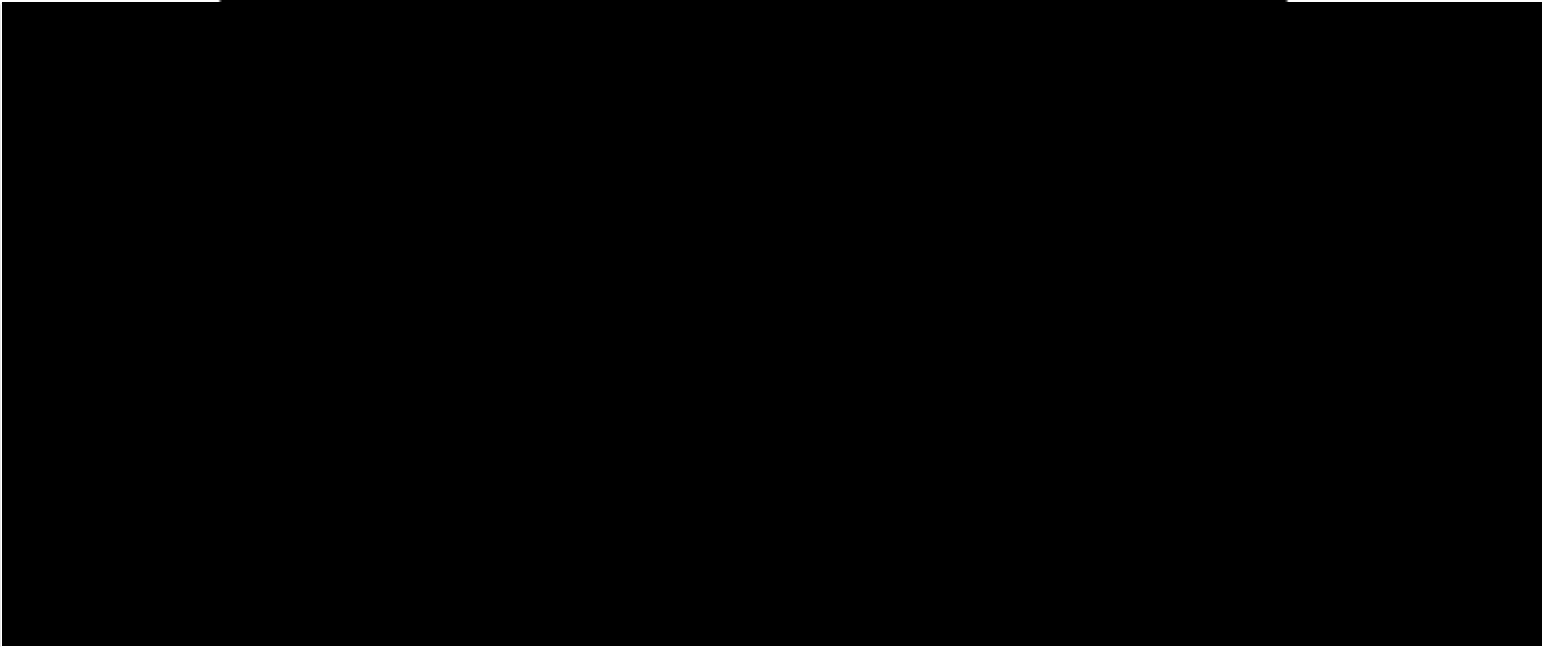
Featured Content Clicks

Apps Main Featured Content Clicks
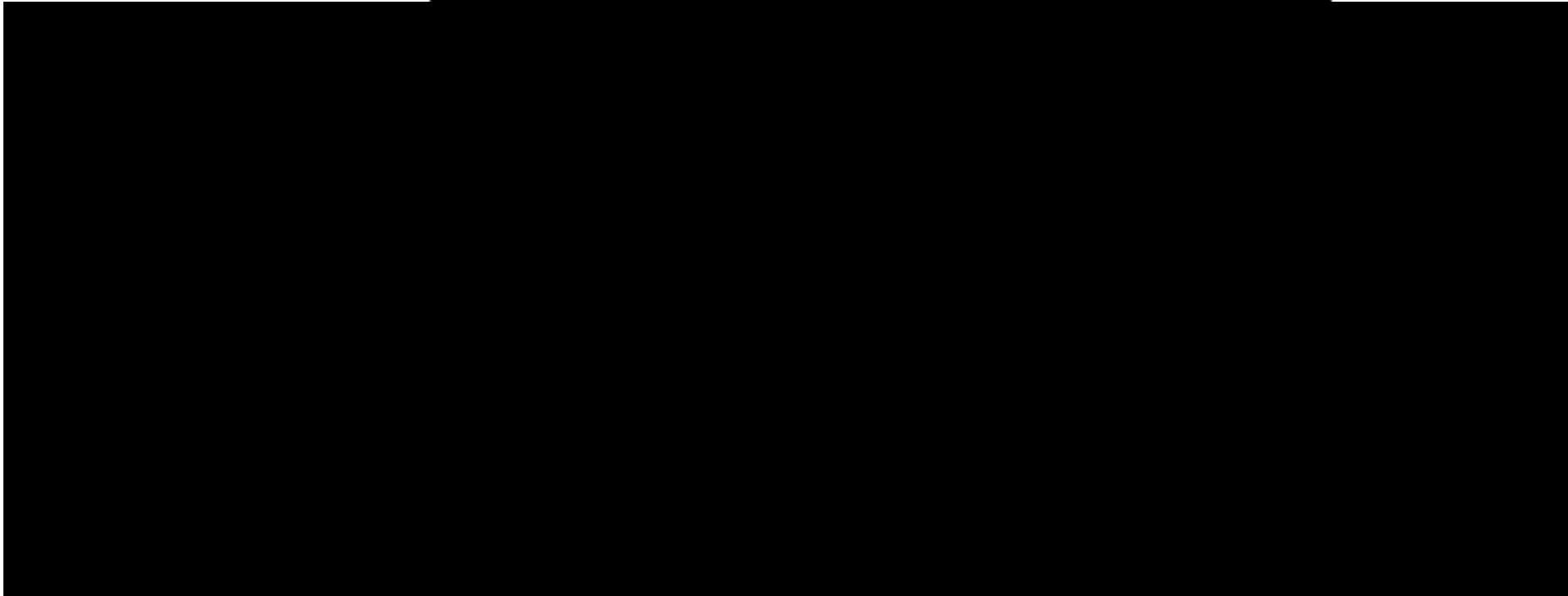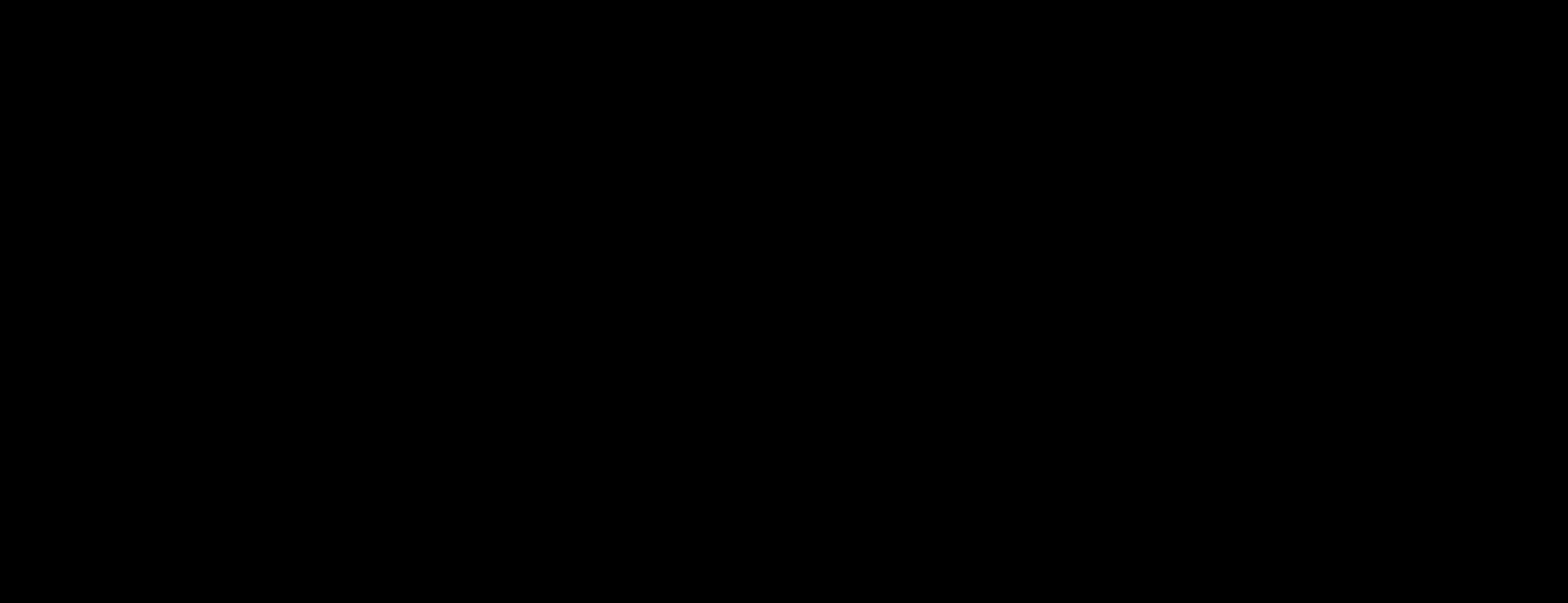
Apps Main Featured Content Downloads

Featured vs Referrals LTV

Potential Business Impact

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Customer Engagement
Appendix

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App Store Benefit
Assumptions
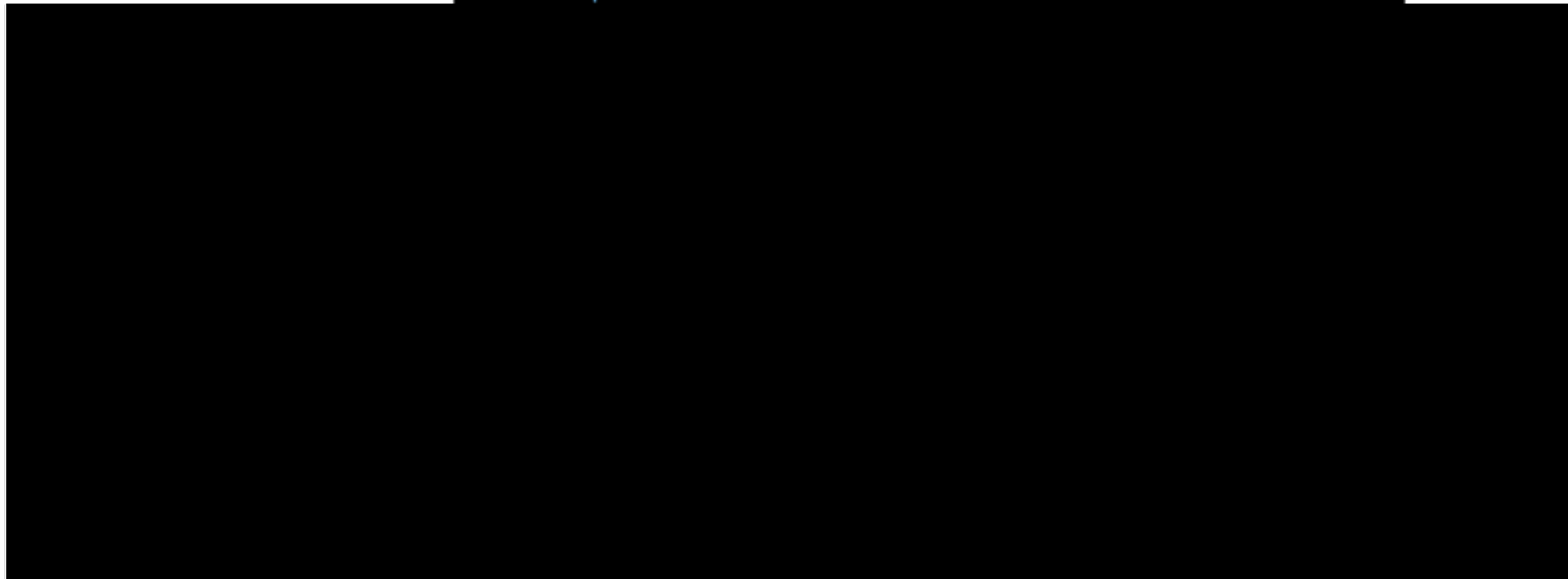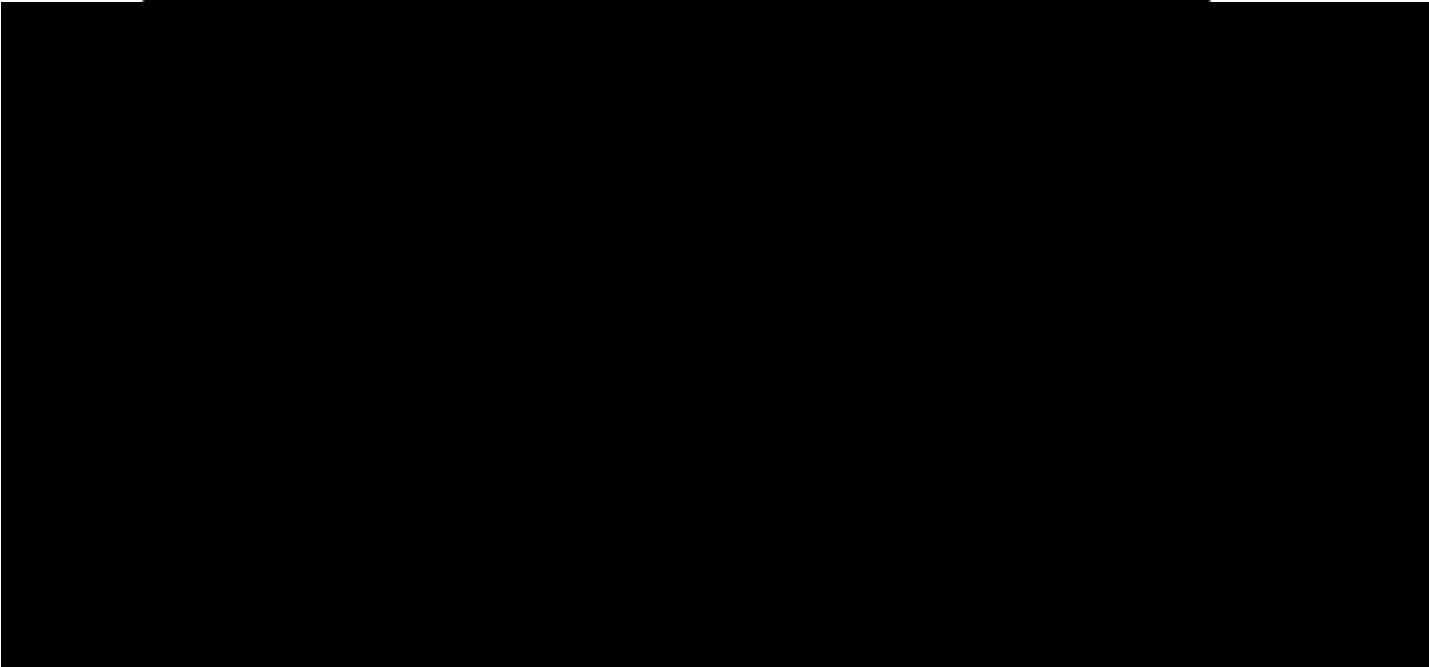
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Customer Journey - Many Paths Exist

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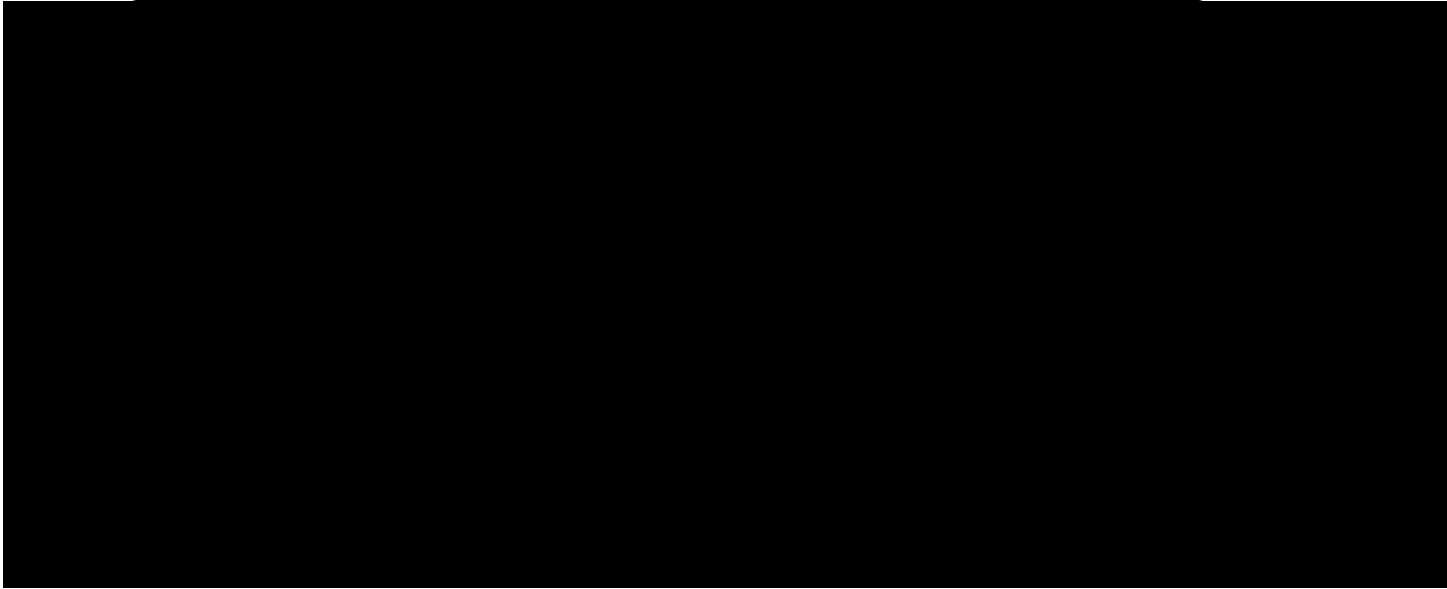
App Store - Year 1 Benefit

Anaytics and PM ask

Services attach drive spend

CRM Capabilities Rollout FY'18

2176.206

CRM Headcount Needs FY18

WORKSHEET

Enhanced Analytics
Appendix

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Global Customer Experience

Finance
Appendix

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3P Subscription Billings (Normalized)
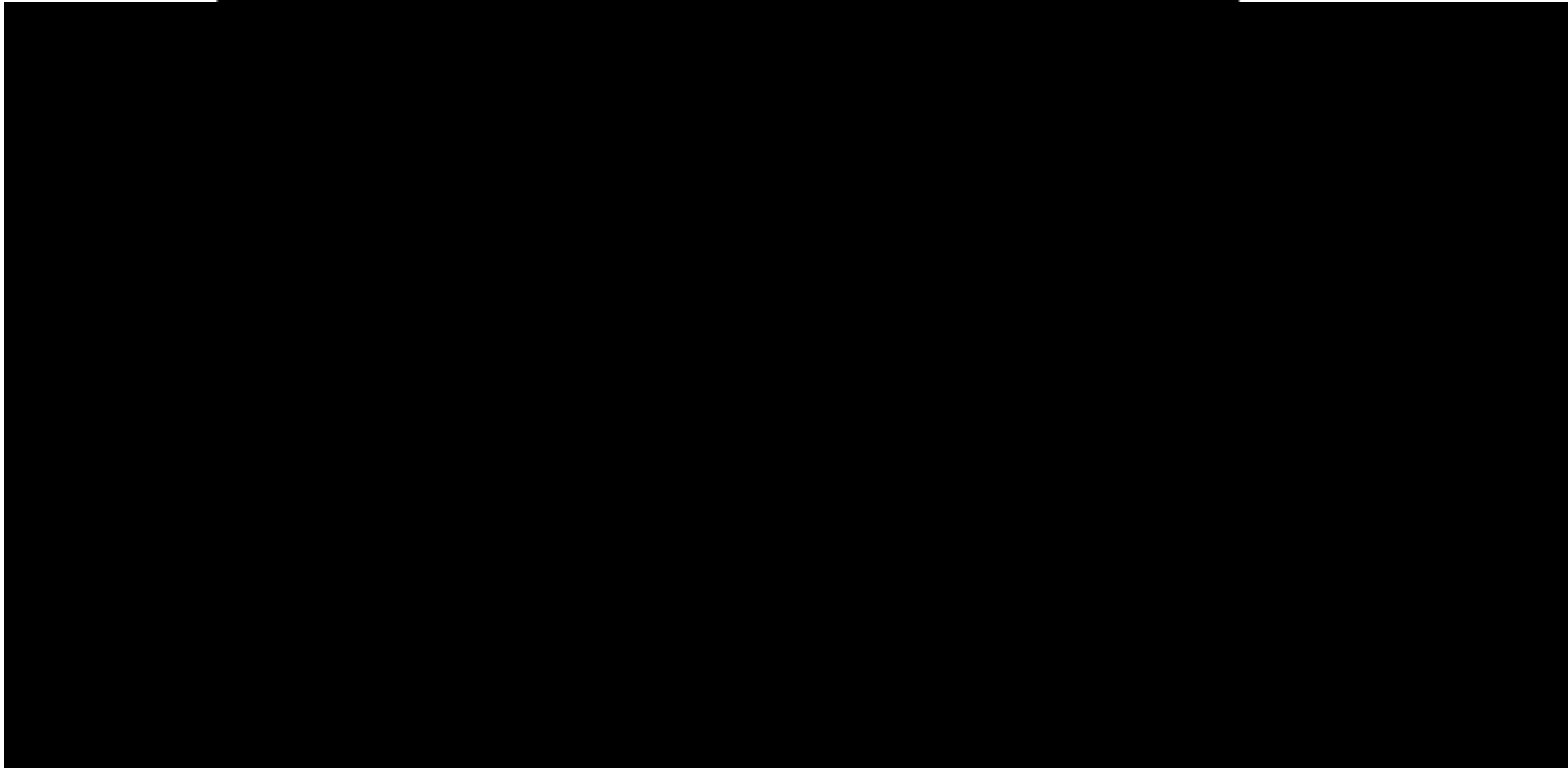
3P Subscription Billings - Movies (Normalized)
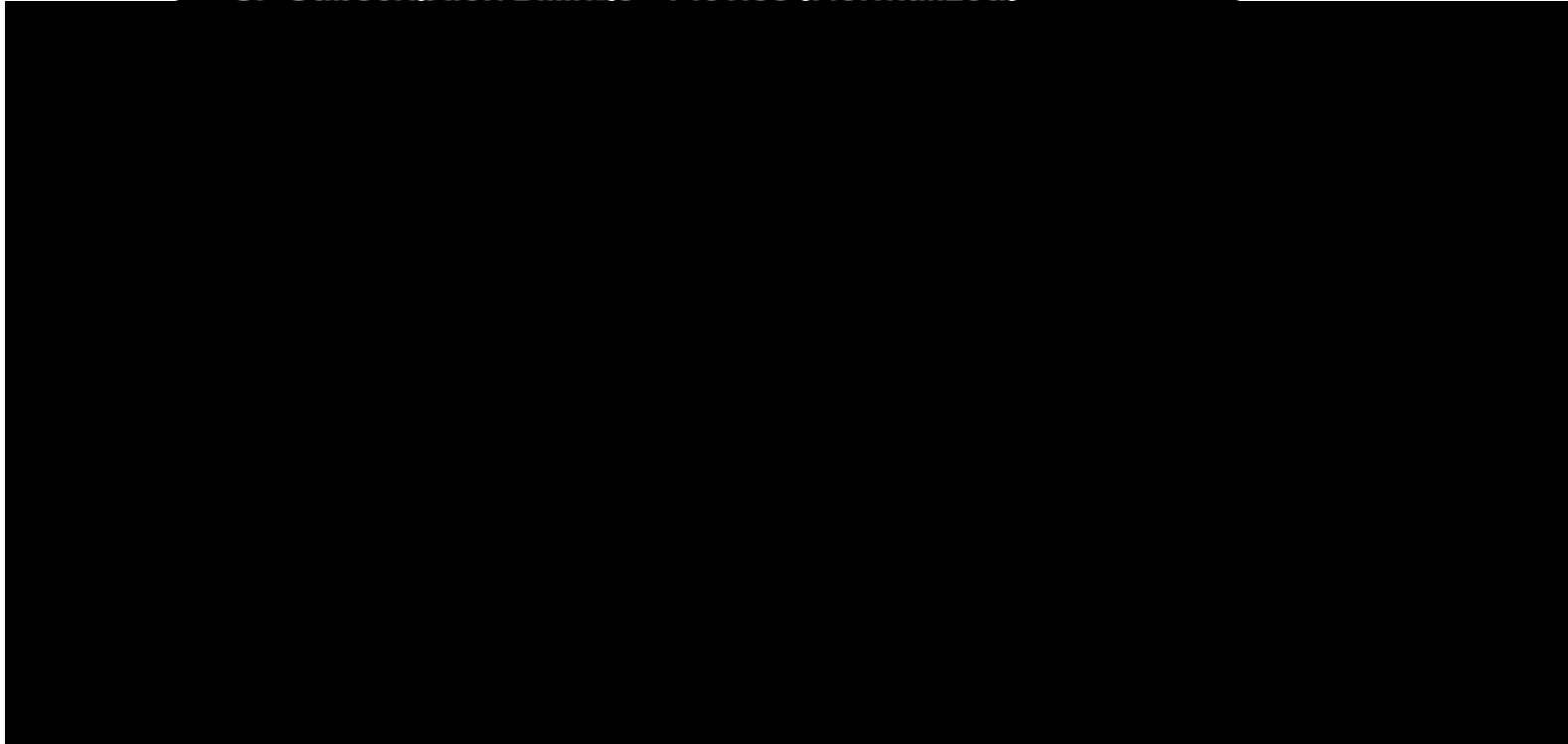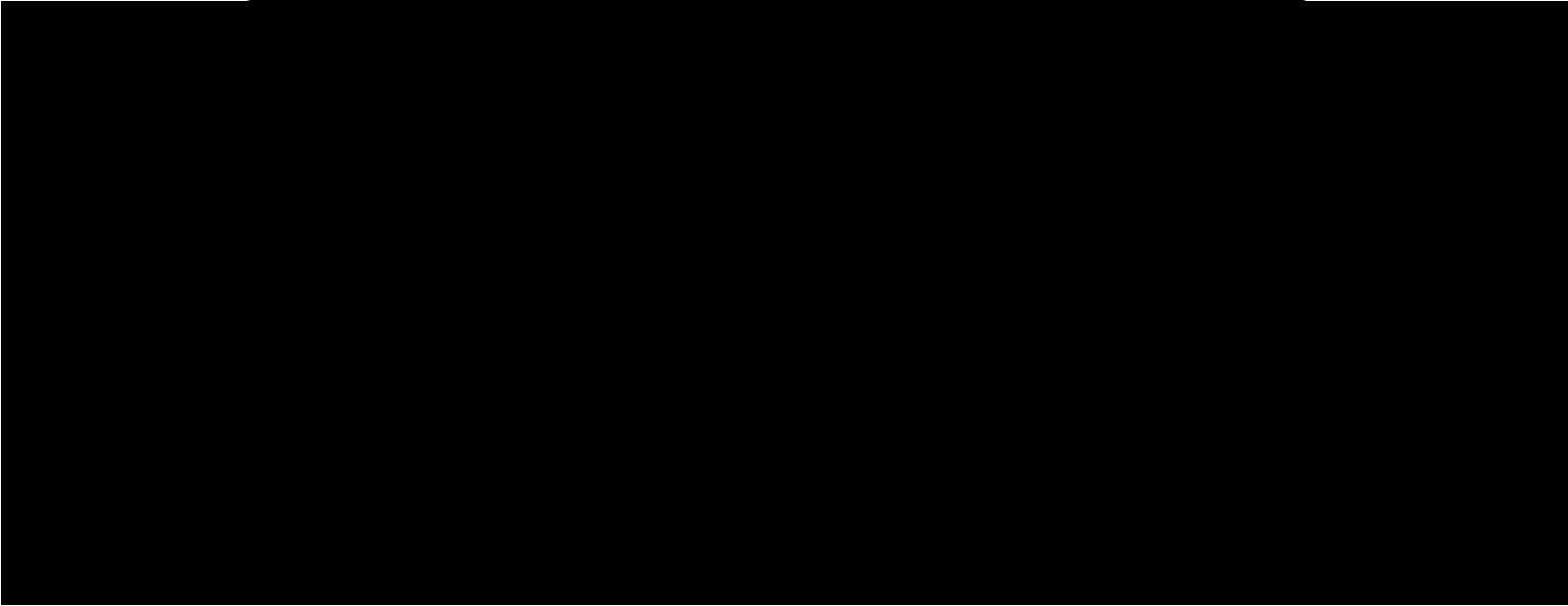
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3P Subscription Billings- Music (Normalized)
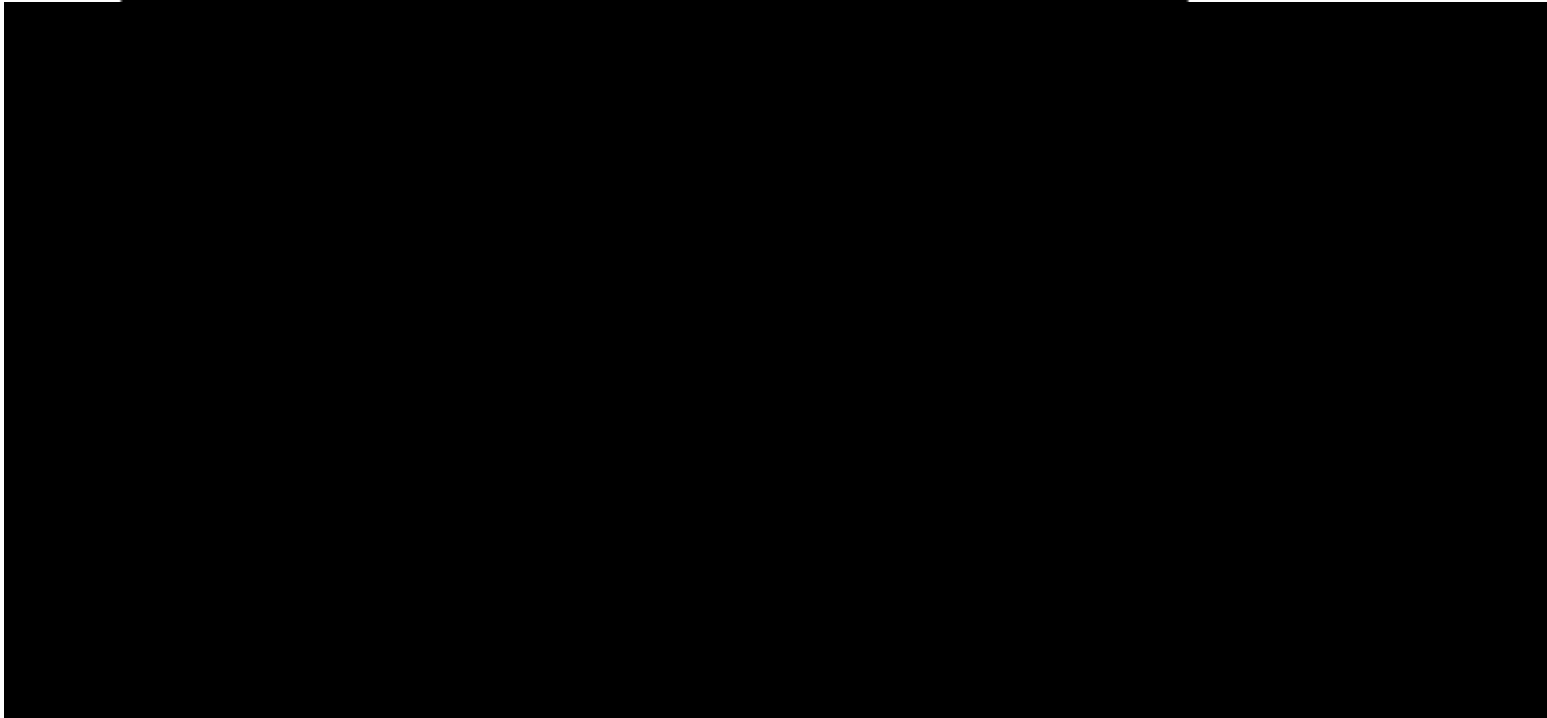
PX-2176.213

Spotify

3P Subscription Billings Bridge (Normalized)

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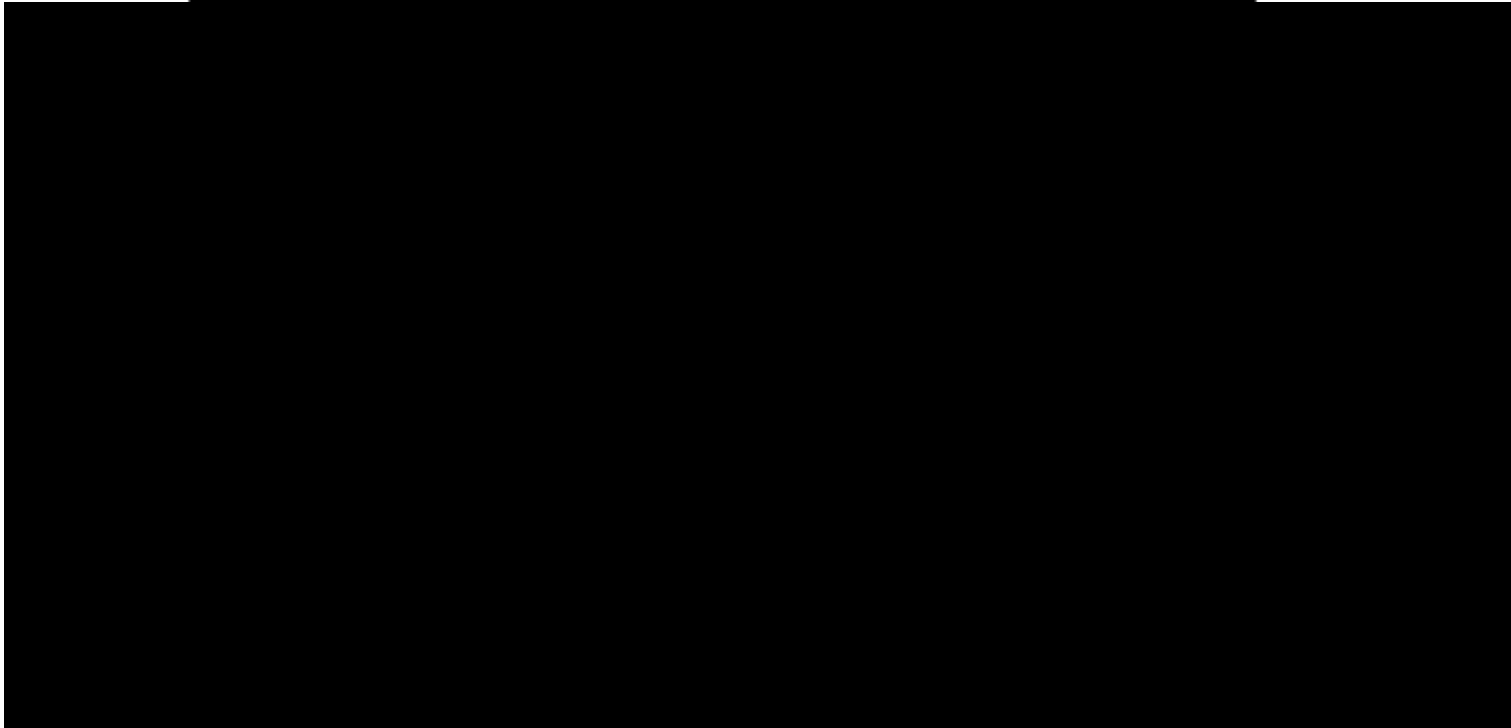
App Store Billings by Region (Normalized)
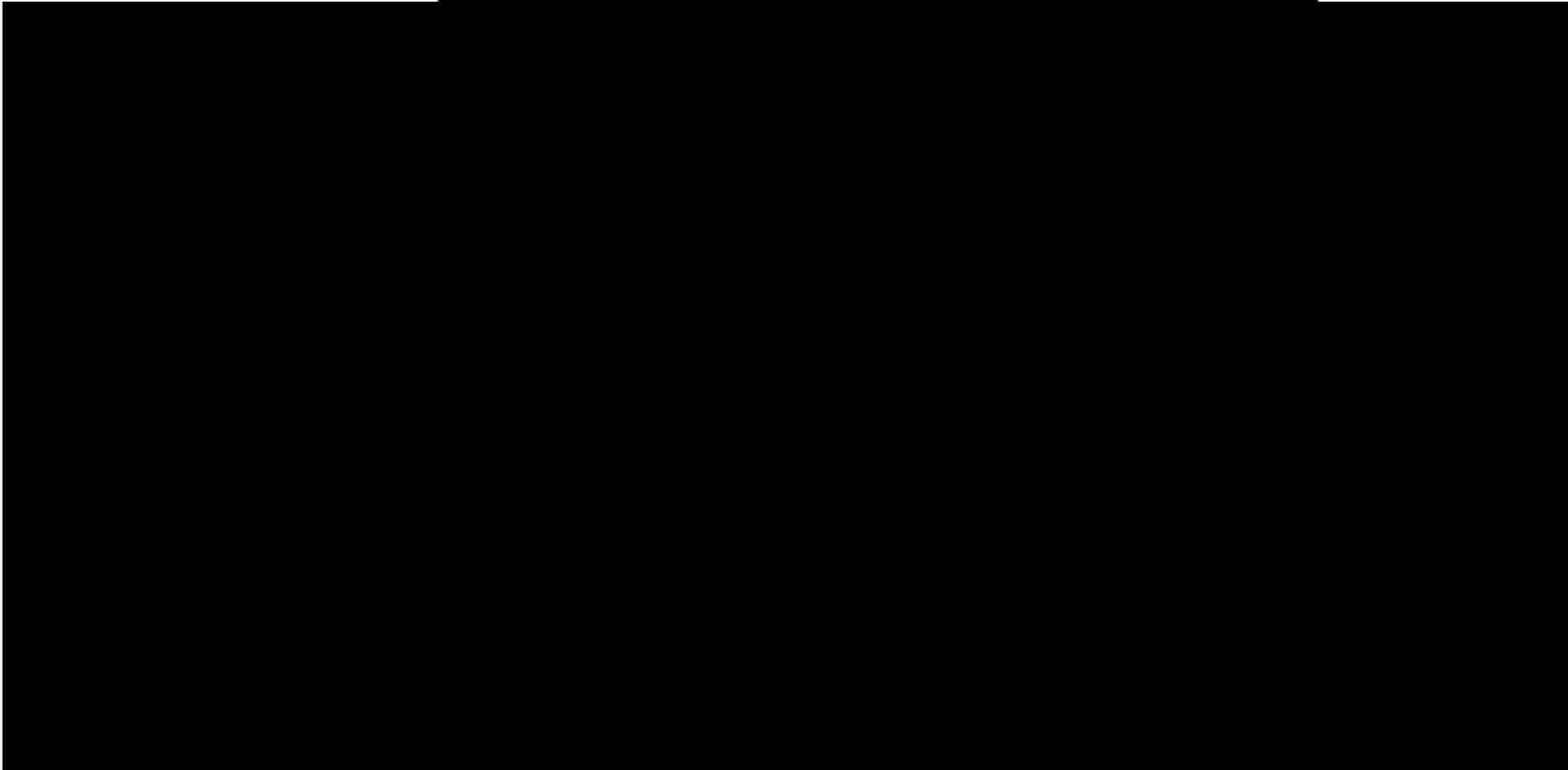
FY'17 Plan Comparison
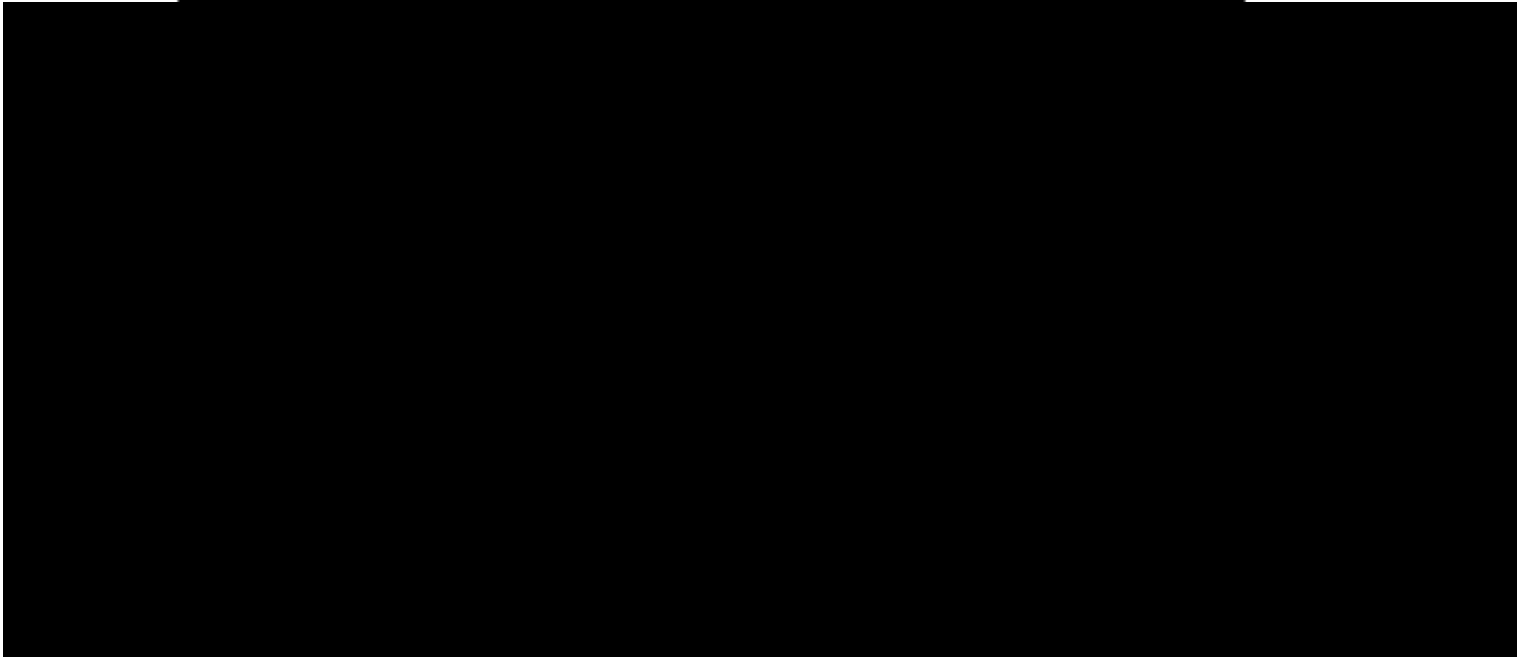
App Store Gross Billings

PX-2176.218
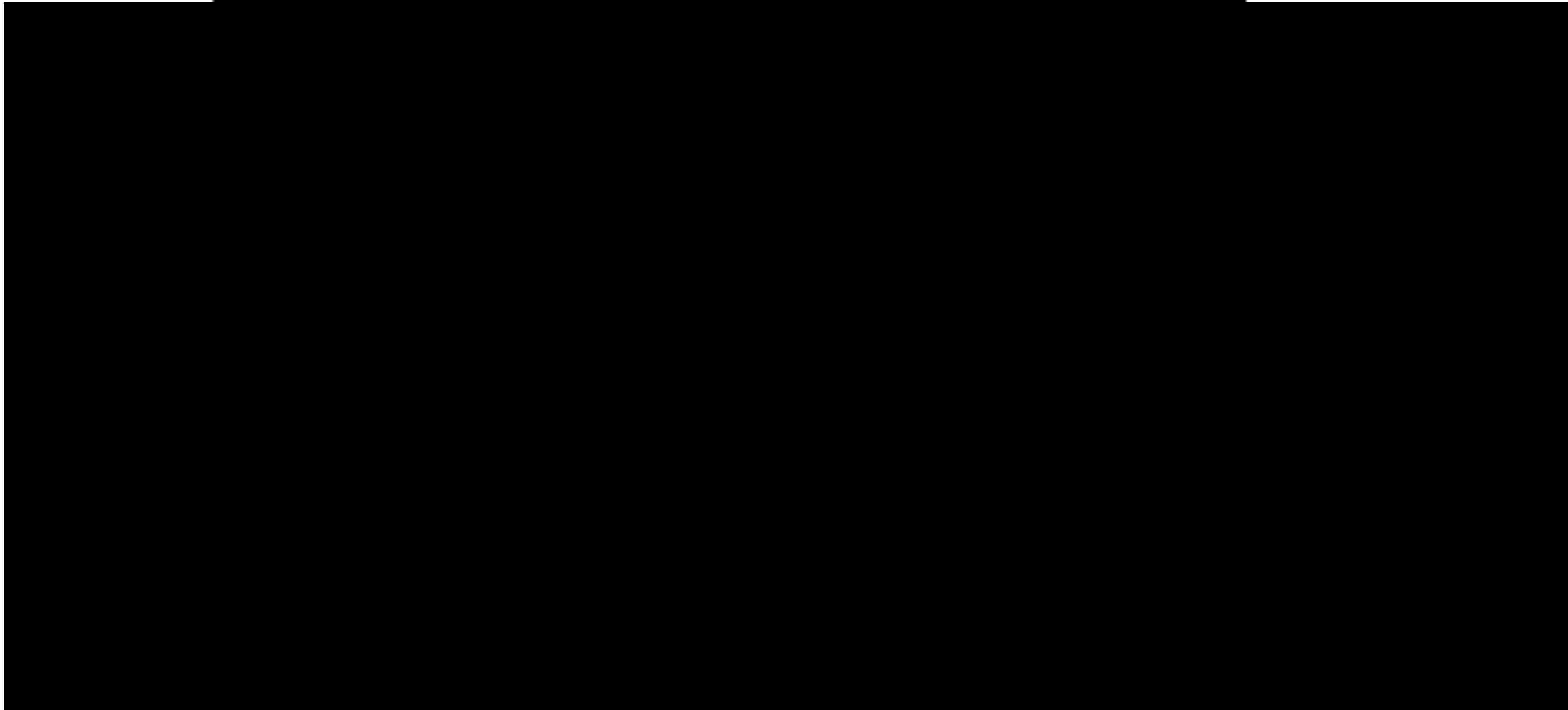
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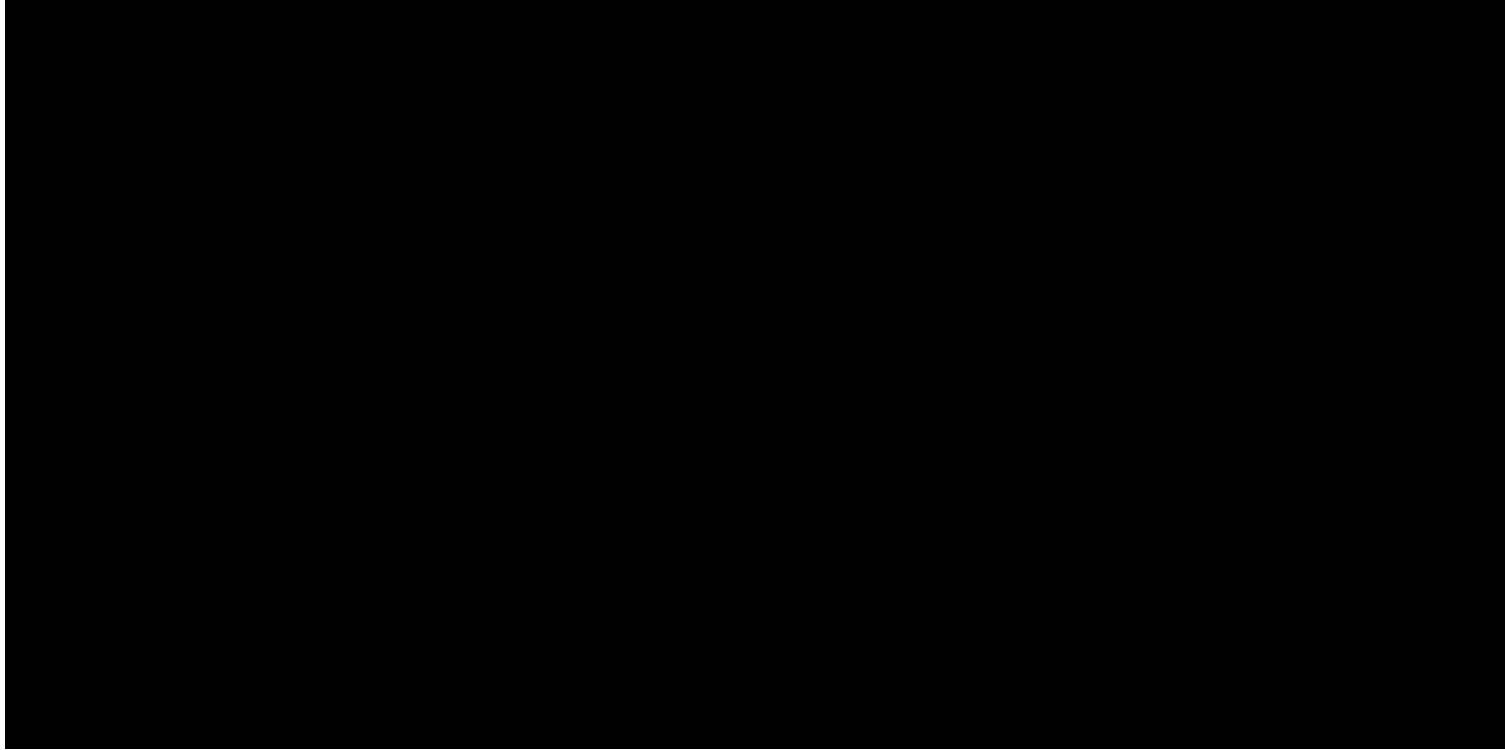
3P Subscription Billings

PX-2176.219

3P Subscription Billings - Movies

3P Subscription Billings- Music

3P Subscription Billings Bridge

PX-2176.222

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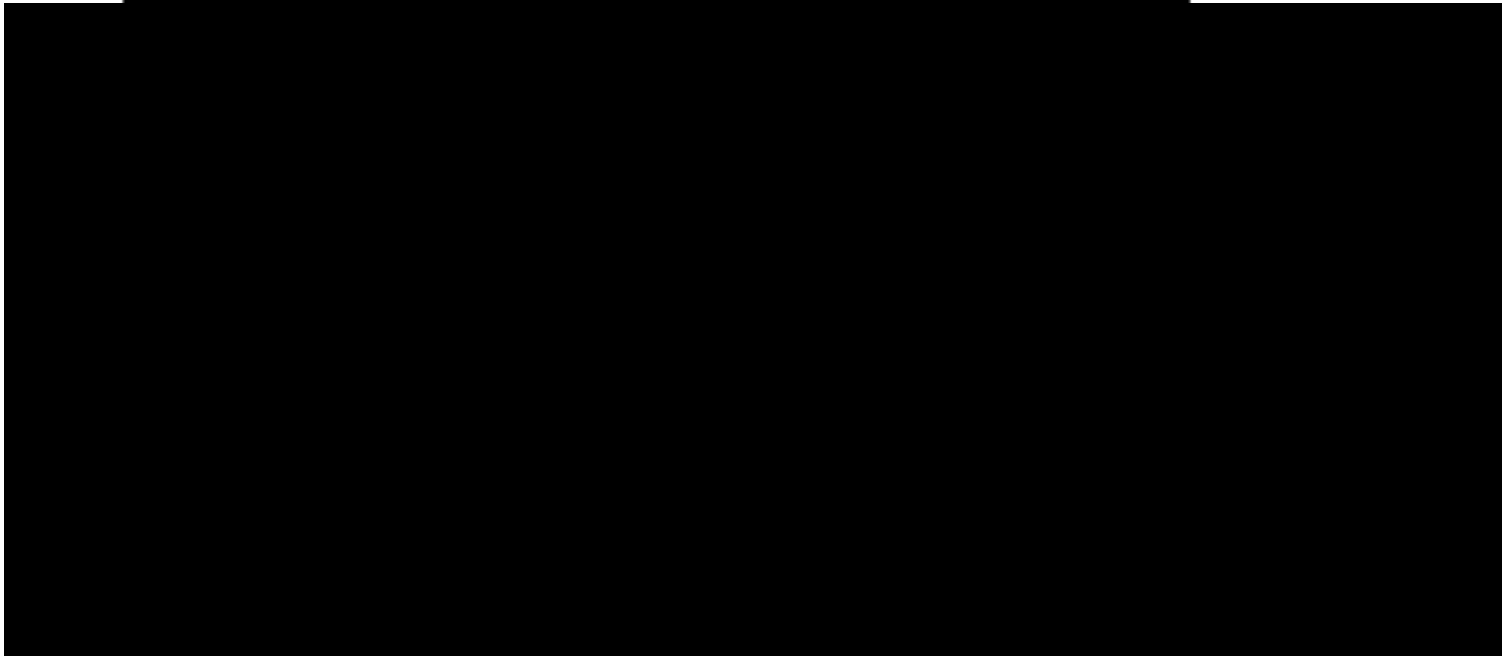
App Store Gross Revenue
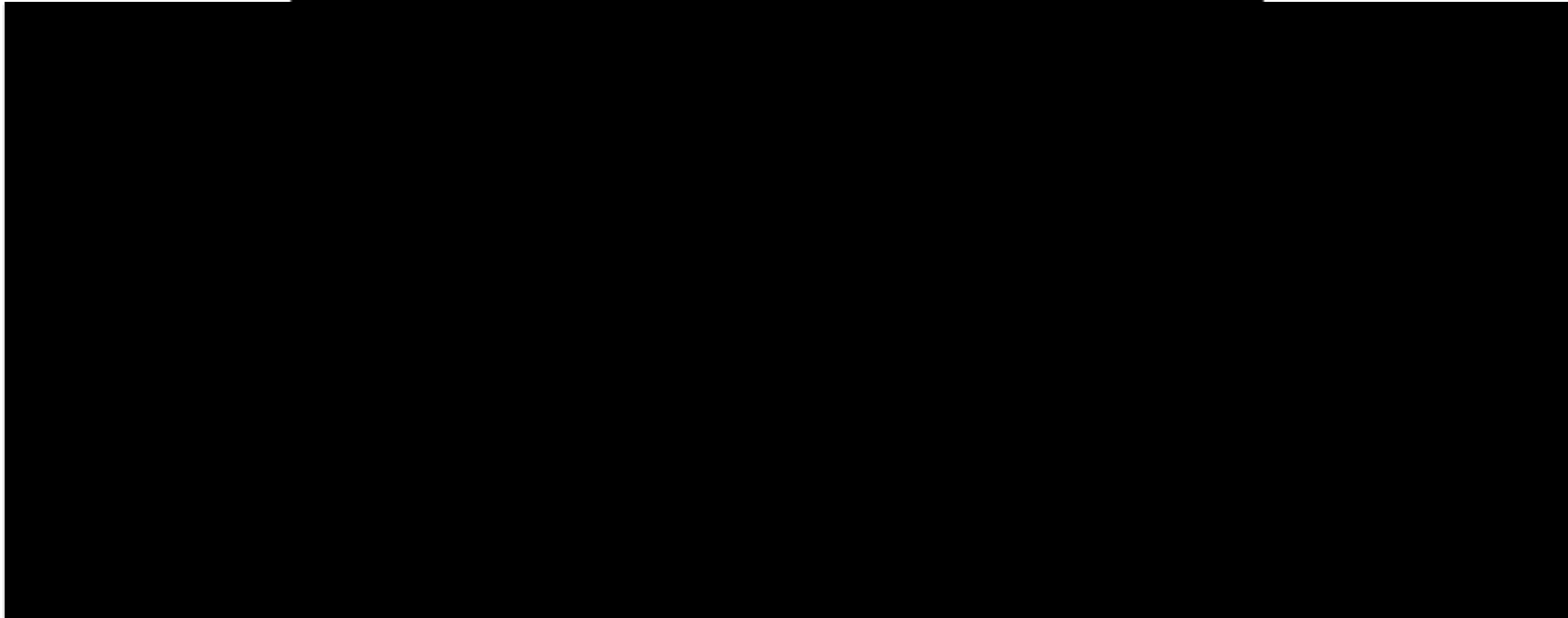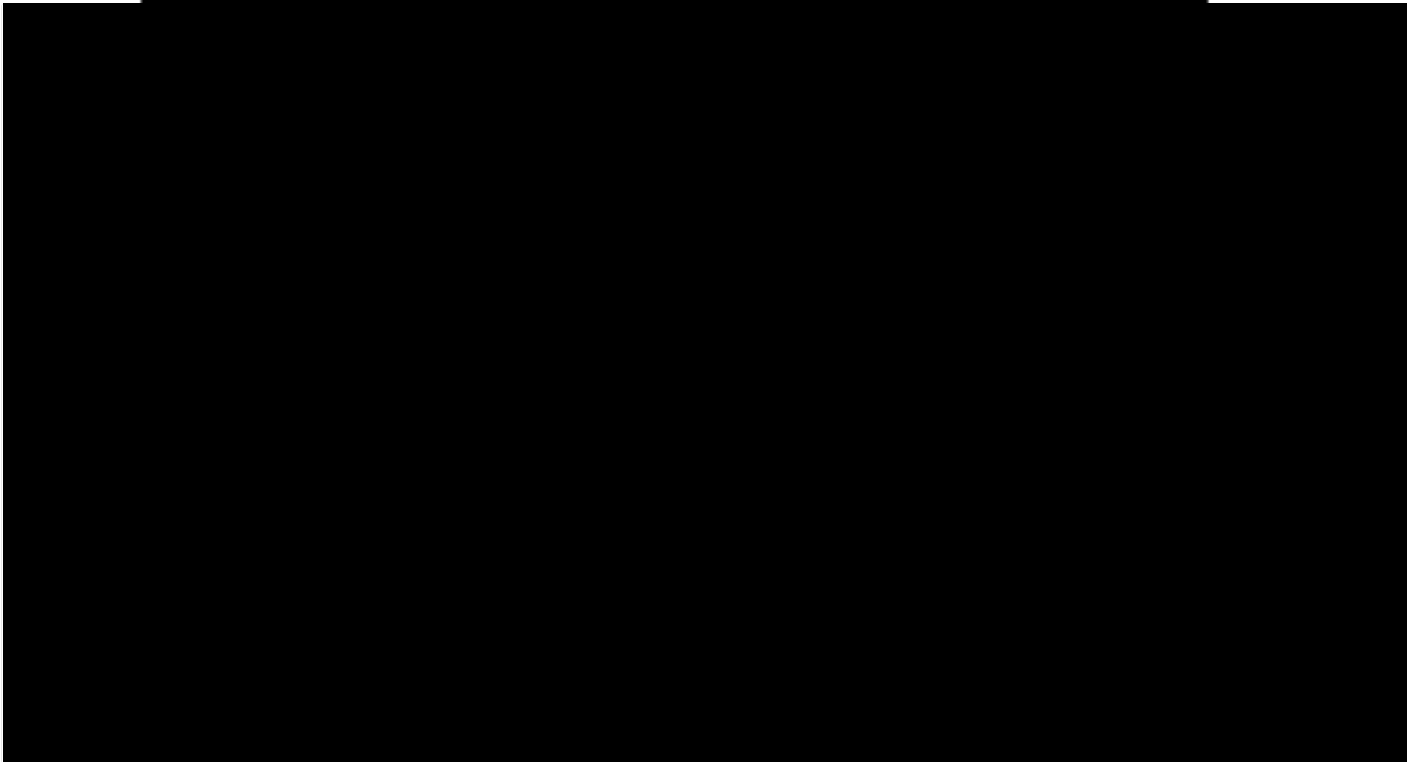
App Store YoY

App Store Billings by Region

PX-2176.225

APL-APPSTORE_09086406

Headcount

Headcount Ask Cost

Headcount - TBH Detail

Headcount - FY'17 Ask

PX-2176.229

APL-APPSTORE_09086410

Headcount Ask - Including Infrastructure

P&L

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